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SELECT STATUTES DOCUMENTS & REPORTS RELATING TO BRITISH BANKING, 1832–1928

THE BANK AND ROYAL EXCHANGE, CORNHILL, *circa* 1846

SELECT STATUTES DOCUMENTS & REPORTS RELATING TO BRITISH BANKING, 1832–1928

SELECTED
WITH AN INTRODUCTION
By T. E. GREGORY
SIR E. CASSEL PROFESSOR OF
BANKING AND CURRENCY IN
THE UNIVERSITY OF
LONDON

VOLUME I
1832–1844

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INTRODUCTION

§ I

THE student who turns from the literature of the Heroic Age of British monetary controversy in order to attempt a study of the original sources relating to the antecedents of our modern banking situation will find himself confronted with a jungle of blue books and Parliamentary discussions, pamphlets and tracts and leading articles: a jungle at first sight so impenetrable that he may well despair. For it is characteristic of the period of middle-class ascendancy after 1832 that it produced much heat and little light; many massive volumes of evidence and statistics, but no classic reports; much legislation but, for a long time at least, no final solution of the various problems to be faced. These volumes are an attempt to bring together some of the material by which the growth of British banking policy and of British banking institutions, in the Victorian era particularly, can be illustrated and illuminated. The original intention was to cover the period 1832–1925 in a single volume, and to accompany it by a volume covering the rise of British banking and the vexed era of the Restriction and the Resumption of Cash Payments. It very soon became apparent that, unless the book was to be nothing but a collection of mere snippets, restriction of scope and extension of space were indispensable. Thus very little will be found in these pages of the detail of banking practice: the development of Colonial Banking and contemporaneous events in Scotland and Ireland have had to be excluded, and the development of the capital market neglected. These are defects of which the present writer is fully aware, and he can only plead that even within the field so restricted, the material from which he was forced to choose was so overwhelming that but a small fragment can be presented here.

The value of original material lies only in part in the evidence it presents of the tendencies of thought or of the movements of events. A secondary but still not immaterial consideration is that it is only by the study of original materials that the tone of

economic life, the temper of an age, can be fully appreciated. Mere antiquarianism is a taste for which the present generation least of all has any profound respect; but still, the language in which economic concepts are clothed has varied more, perhaps, than the concepts themselves, and there is some instruction to be derived from studying the words in which the leaders of the banking world in successive generations have dressed their arguments and convictions. Conflicts in the sphere of banking policy have revolved round a relatively restricted number of central ideas, but it is only by becoming familiar, through the study of documentary material, with the diversity of phrase that one comes to realize the real identity of content.

§ II

By 1832, when the series of documents included in this collection begins, British banking had already advanced some stages in the process of adaptation to a more complex economic environment. The question of the currency standard had been settled in 1819, though for a decade there were violent debates inside and outside the House of Commons on the wisdom of the steps taken. The Bank itself was hostile to the theories of the Ricardian economists which had inspired the Resumption Reports of 1819, and had expressed its dissent in a Minute which was published with the evidence submitted to the Secret Committees. On this point, time and experience gradually produced a change in the attitude of the Bank Directors, and in 1827, on the motion of William Ward, the hostile Resolution was expunged. This implied an acknowledgement on the part of the Bank that in the management of its note issues it was bound to have regard to the state of the foreign exchanges, so that a declining gold reserve ought to be accompanied by a declining note circulation. Now the Bank itself did not export gold when the exchanges were unfavourable: this was done by the public, and as the note issues naturally declined as they were exchanged for gold for export, the rule of having regard to the state of the foreign exchanges was interpreted to mean that, at a time when the public was taking gold, the Bank should not reissue the notes by means of additional loans. As was explained to the 1832 Committee, the aim

was to keep the securities steady, so that fluctuations in the note circulation were to be caused by ' the action of the Public ', gold inflows causing an expansion of the note circulation, gold outflows a decline.

One difficulty at once presented itself. The securities of the Bank of England consisted of two portions, then as now, that is, Government Securities—largely Exchequer Bills—and commercial bills of exchange. If the demand for discounts increased, the Bank could compensate this additional demand by allowing Government Securities to run off or could sell them in the open market. But the amount of discounts offered to the Bank depended on the relation between Bank rate and open-market rates; and the question arose, what was the Bank to do if the demand for discount accommodation went on increasing so that the *Total Securities held* rose? Under the Usury Law the Bank could not charge more than 5 per cent. discount. It had either to go on discounting or to adopt some alternative device for limiting the offer of bills to it. It chose, as a matter of fact, to go on discounting, thus virtually abandoning its principle of keeping the securities steady, but also implicitly realizing that a Central Bank at critical periods *must* be prepared to accommodate the market. In 1825, after a period of hesitation, the Bank, with practically no reserve left, still went on discounting freely and saved the country from a second suspension. It was with these aspects of Bank policy, the reconciliation of the diverse elements of which it was composed, that the Committee of 1832 was largely concerned. In another respect the money market and the Central Bank were coming into closer touch. From 1829 onwards the Bank began to advance on securities in anticipation of the Quarterly Dividends Payments, thus evening out the flow of funds into and out of the market; though originally the advances were made not at or over Bank rate but below it.

Joint-stock banking was in its infancy, but had already given rise to much correspondence between the Bank and the Government, and was a cause of great heart-burning and dismay to the country bankers, who, in the period between 1826 and 1832, were in violent opposition to the Government, the Bank of England, and the Joint Stock Banks. The issue over joint-stock banking

had been joined in 1822, when the Government offered to prolong the Bank Charter until 1st August 1843, in place of 1st August 1833, provided the Bank were willing to waive its monopoly of joint-stock note-issue outside a sixty-five-mile radius from London. These terms were accepted both by the Court and by the Proprietors, but the matter seems not to have been pursued. After the crisis of 1825 the Government again approached the Bank, and this time adopted a thoroughly hectoring tone. After the expiration of its Charter, the Bank could not expect to see its exclusive privileges prolonged—'such privileges are out of fashion: and what expectation can the Bank, under present circumstances, entertain that theirs will be extended?' After a period of hesitation, the Bank gave in and consented to allow the formation of joint-stock banks of issue outside a sixty-five-mile radius, subject to it itself being allowed to open branches. Thus the country bankers found themselves at one and the same moment confronted with two types of competition: that of the Bank and that of the new joint-stock banks.

The note-issuing privileges of the country bankers were also affected by fresh legislation passed as a consequence of the crisis of 1825. Originally, the £1 and £2 note issues which had been sanctioned by the emergency legislation passed at the outbreak of the war were to have been withdrawn 'Two Years after the Expiration of the Restriction upon Payments in Cash by the Bank of England' (56 Geo. 3, c. 21). In 1822 this period was extended till 5th January 1833, by 3 Geo. 4, c. 70. Acting on the assumption that these small notes were a form of currency peculiarly liable to abuse, the Government, after the crisis, decided to put an end to them. In its assault upon the same type of note in Scotland and Ireland the Government was unsuccessful; but by 7 Geo. 4, c. 6, small notes were to be retired in England and Wales after 5th April 1829. The small notes of the Bank of England had already been withdrawn in 1821, when, anticipating the date fixed by the Resumption Act, the Bank reverted to full cash payments. The position of the country bankers was not made easier by the fact that the Bank of England gave special rediscount facilities to country joint-stock banks prepared to substitute its notes for their own.

The result of these steps was a movement towards co-operation among the country bankers. In October 1827 a few country bankers came into touch with the Committee of London Bankers, at which meeting it appears to have been agreed that the new policy inaugurated by the Bank was ' unjust and dangerous ' and that it was desirable to organize an ' effectual opposition to their recently adopted principles and practices '. In May 1828 the country bankers claimed a right to be regarded ' as parties in the intended application for the renewal of the Bank Charter and that no special privilege or monopoly be granted or continued to the Governor and Company of the Bank of England: but that they may be placed on a perfect equality with the country bankers in the competition which, by means of their branches, they are now carrying on with your memorialists '. To this demand the Government replied that it would not lose sight of the interests of the country bankers in any negotiations with the Bank of England. The battle between the various sections of the banking structure was thus fairly begun.[1]

§ III

The appointment of a Secret Committee to inquire into the expediency of renewing the Bank Charter was moved by Lord Althorp in the House of Commons on 22nd May 1832,[2] who said that opportunity would be taken to inquire, not only into the Charter of the Bank, but into the banking situation as a whole. Subsequent discussion turned mainly on the point of whether or not it was desirable to include within the scope of the inquiry the question of the £1 note, but no attempt was made to guide the House into surveying the problems of British banking as a whole with a view really to instruct the Committee. Since the members of the Secret Committee had been specially selected with the idea of representing all points of view,[3] it is not surprising that their Report is a somewhat disappointing document. Nearly the whole value of the proceedings lay in the enormous

[1] For the expression of the views of the country bankers, *v. Memorials of Country Bankers to Government*, 1828–1833, P. P., 1833, vol. xxiii.
[2] *House of Commons Debates*, 3rd Series, vol. xii, col. 1356 *et seq.*
[3] *V. loc. cit.*, col. 1358.

mass of evidence collected, not only as to the policy and practice of the Bank of England, but also as to British banking practice generally. But by stating in detail ' the principal points to which they have directed their attention ', although on no single one did the Committee consider the information obtained ' so complete as to justify the Committee in giving a decided opinion ', the Report does throw some light upon what, by the men of the day, were considered to be the vital points at issue. The vital points the Report states thus:

' Whether the paper circulation of the metropolis should be confined, as at present, to the issues of one bank, and that a commercial company? or, whether a competition of different banks of issue, each consisting of an unlimited number of partners, should be permitted?

' If it should be deemed expedient that the paper circulation of the metropolis should be confined, as at present, to the issues of one bank, how far the whole of the exclusive privileges possessed by the Bank of England are necessary to effect this object?

' What checks can be provided to secure for the public a proper management of banks of issue, and especially whether it would be expedient and safe to compel them periodically to publish their accounts? '

These are significant statements. The centralization of note issues and the publication of accounts are undoubtedly two of the pillars of modern Central Banking practice, and it is not surprising, therefore, that information and guidance respecting them should have been sought by the Committee. But it would hardly occur to the modern mind to regard them as the most important matters into which a Committee of Inquiry into an established Central Bank would look. The Reserve, the Method of Control, the Government of the Institution, the Relations of the Central Bank to the Money Market, as determined both by the structure of banking and the methods of control used and available, *these* are the types of question which spring to mind as primarily involved in an examination of a Central Bank. The difference between 1832 and 1928 lies in the fact that the men of the period did not, as we are inclined to do, take a Central Bank for granted; whilst the paradoxical aspect of the situation of 1832 lay in the fact that, in spite of indecision on the main point of principle,

a Central Bank in the true sense did actually exist, and the labours of the Committee were largely devoted to elucidating the principles upon which the Bank of England worked and the difficulties which a detailed examination of those principles revealed. That the practice was much in advance of the theory is clear from the evidence given by the Governor and one of the most distinguished of his colleagues on the Board: the general line of the argument is directed to showing that the Bank of England is *not* in the same position as other banks; therefore it ought not to compete with the other banks in discounting commercial bills in normal times,[1] nor ought its utility as an institution of last resort in times of difficulty to be hampered by altering its form of government,[2] nor is it deemed desirable that the rate of interest should be lowered ' by competition, on the part of a body like the Bank '[3]; *because* at those times ' when a scarcity of money or discredit exists in the London commercial money market . . . the Bank becomes the main support of the commerce of the country '; it is undesirable that the discount-rate policy of the Bank should be hampered by the existence of Usury Laws, limiting the rate of discount and thus compelling the Bank ' to limit the quantity or description of bills to be tendered for discount; either of which last measures would be equally detrimental to the commerce of the country '.[4]

The Secret Committee not having recommended any positive policy at all, the Government was in a position to negotiate[5] with the Bank without having its hands tied in any way. It finally offered the Bank an extension of the Charter for a further twenty-one years, subject to a break at the end of ten years, if the then existing Government should see fit; and, further, proposed to make Bank of England notes a legal tender and to modify the application of the Usury Laws to bills of exchange having not more than ninety days to run before due date. These concessions

[1] *V. infra*, vol. i, pp. 13 *et seq.*
[2] *V. infra*, vol. i, p. 16.
[3] *V. infra*, vol. i, p. 18.
[4] *V. infra*, vol. i, p. 16.
[5] The negotiations can be followed in detail from the Parliamentary Returns, viz. (1) *Correspondence and Minutes of Conferences . . . on the subject of the Renewal of the Bank Charter*, and (2) *Communications . . . between the Government and the Bank of England bearing date subsequent to 3rd June, 1833*, in P. P., 1833, vol. xxiii.

were made conditional on the Bank agreeing to a modification of the rights of banking companies outside the sixty-five-mile radius to draw bills on London without restriction as to amount and to issue notes payable in London; and to the rendering of a confidential return, to be published only in an averaged form. Government further notified the Bank that it proposed to legislate on the subject of 'country banks. The provisions of the measure will be such as to hold out an inducement to the establishment of joint-stock banks who will not issue their own notes.' On 31st May 1833 Lord Althorp introduced his measures to the House of Commons.[1] The Government proposals with regard to the establishment of Chartered Joint Stock Banks did not win assent; and the Bank Charter Act of 1833, beyond providing explicitly for a recognition of the right of non-issuing Joint Stock Banks to open within the sixty-five-mile radius, left the *general* banking situation mainly unchanged, though embodying the modifications set up above.[2] The direct cost to the Bank was a reduction of £120,000 in the amount paid for the management of the Public Debt.

§ IV

For a period of eight years the Bank of England—but not the Joint Stock Banks—was relieved of further inquiry. But on 10th March 1840 the Chancellor of the Exchequer moved the appointment of a new Select (and Secret) Committee on Banks of Issue. The practical reason given was that, as the Bank Act of 1833 provided for a break in the Charter (on due notice being given) in 1844, it was desirable that ample time should be available for conducting preliminary inquiries into the policy of the Bank. That such inquiries should assume an ample scope was rendered particularly necessary by the division of opinion among the experts and by the absence of any agreed first principles; indeed, 'the question to which their attention ought to be specially called was as to the existence of a bank having any particular privileges—whether the existence of that bank was right or proper—whether

[1] *House of Commons Debates*, vol. xviii (3rd series), col. 169.

[2] For the protest of the country bankers against the general tendency of the 1833 legislation, proposed and actual, *v. Copies of Memorials, &c.*

it would not be more advisable to introduce the system called free banking; whether, if they conceded that a bank ought to exist, sufficient powers had been given to it to perform those functions which they expected a bank to perform. And then again there was the question, whether it were advisable at the present moment to reconstruct the whole system and have but one bank of issue.' Apart from an admirable speech by Grote, the rest of the debate upon the motion turned upon non-essentials, though the motion was, of course, agreed to, but not without further difficulties arising out of repeated attempts to alter the composition of the Committee.

The Chancellor of the Exchequer had not in the least exaggerated the prevailing state of intellectual confusion on the subject of Central Banking and of note-issue in general. The Bank of England was exceedingly unpopular, and the direct cause of that unpopularity is to be found in the dissatisfaction aroused by the conduct of the Bank since the last revision of the Bank Act: a dissatisfaction voiced almost as strongly by Tooke, who was later to be the leader of the opposition to Peel's measure of 1844, as by Lord Overstone and Colonel Torrens and G. W. Norman, who may claim to be the main protagonists on the other side. But the legislation of 1844 was an attempted solution of certain definite difficulties, and not a mere application of an *a priori* currency theory. If in the last resort the plan of 1844 springs from Ricardo's posthumous tract of 1824, the *Plan for the Establishment of a National Bank*, it was the conduct of affairs by the Bank which enabled the reformers to base their case on the existence of definite and pressing evils.

Since 1832, as the voluminous evidence collected by the Committee of 1840 (which was reappointed in 1841) showed, the rules by which the Bank of England professed to be guided were not observed in practice. The Bank did not maintain the securities even; it did not maintain a normal cash-ratio of one-third of its liabilities to the public; more important still, the action of the public, to which the Bank professed to look, did not result in decreasing the note-circulation as the reserve or ' Treasure ' fell off. The truth is that the circulation varied a great deal less than the reserve, the twofold explanation being that the deposits varied

more than the note circulation did, and that the mechanism of the money market made it inevitable that, if a decline in the cash reserve resulted in a simultaneous reduction in the resources of the money market, outside money rates would rise towards the level of the Bank rate, and that bills would consequently be taken to the Bank in large quantities for discount. *Unless* the Bank managed to offset increased discounts by sales of securities, the liabilities would remain steadier than either the securities or the reserve, or, what is the same thing, notes issued against securities would replace notes against cash. The result was (as it was put to the House of Commons by the Chairman of the 1840 Committee) that, taking average quarterly figures between 1832 and 1840, ' in that period the difference between the highest and lowest amount of deposits was £12,384,000; securities £10,804,000; bullion £8,178,000; whilst the difference between the highest and lowest amount of circulation is only £3,334,000; the securities, which were to have been kept even, varied to the extent of nearly £11,000,000, and the circulation, which ought to have varied with the influx or efflux of bullion, varied only to the extent of rather more than £3,000,000. The result of the action of the Bank was to keep their circulation even and to let their deposits, securities, and bullion vary.'[1]

This general failure to implement the policy of 1832 culminated in the ' crisis ' of 1839, itself not distantly connected with the minor ' pressure ' of 1835–6. In the last resort the difficulties of the Bank sprang from the movements of the trade-cycle in Great Britain and the United States, the boom culminating in both countries in 1836–7 and being followed by the inevitable depression.[2] But the immediate point at issue was the degree to which the Bank contributed to its own difficulties in 1839 by pursuing too lax a credit policy previously. The straits to which, in that

[1] *House of Commons Debates*, vol. lxxiv (series 3), 20th May 1844, col. 1361. Wood added, ' I repeat that I do not mean, or wish to blame, the conduct of the Bank Directors. On the contrary, they were perfectly right in departing from their rule; but the consequence is, that there has been, and is, no rule at all for the regulation of their issues.'

[2] Cf. Silberling, *British Prices and Business Cycles*, p. 242; and Thorp, *Business Annals*, p. 76. Silberling's curves show a revival in 1838–9; Thorp describes these years as years of ' depression '.

year, the institution was reduced can be gathered from the fact that, had it not been made possible for it to borrow in Paris, the entire cash reserve of the Bank would have disappeared. What made the responsibility of the Bank still greater, in the eyes of its critics, was that it had had exceptional opportunities for controlling the market situation in 1834–7, owing to its command over certain special deposits, an opportunity which it was charged with neglecting. And, whilst not utilizing the resources at its command, it endangered its own future by coming to the assistance, in too liberal a manner, of the Anglo-American finance houses and certain Irish and British banks which found themselves in difficulties.[1]

It must not be forgotten that the Bank was not the sole source of note issue. Some progress had already been made in the study of the relative movements of country note issues and Bank note issues, especially by Tooke and, somewhat later, by Gilbart, whose important evidence on these matters is printed below.[2] But the fact that there were many independent sources of issue enabled the apologists for the Bank to argue that it was useless for the Bank to contract its issues if, simultaneously, the country bankers increased theirs, and it also enabled critics of the existing situation to argue that that being so, the only solution of this opposition of interests was to unify the note issues, either in the hands of the Bank or some other single and central authority.

§ V

Behind the wrangle on points of detail which preceded and followed the passage of the Bank Act of 1844 lay an important issue of principle. Given a metallic standard, with convertible notes circulating side by side with coin, was it true that the self-interest of *issuers* of notes and the self-interest of *holders* of notes would form such a system of checks and counter-checks as automatically to adjust the amount of notes issued to the volume which *ought* to be issued? That amount was given by the neces-

[1] The details of Bank policy during this period can best be studied by following the evidence given by J. Horsley Palmer before the Committee of 1840.

[2] *Infra*, vol. i, pp. 70–81.

sity, first, of maintaining parity between paper and coin inside the country; and, since the metallic standard was an international one, secondly, of maintaining parity between the money of the issuing state and that of the other states with the same metallic standard. In other words, the question at issue was the validity of enlightened self-interest as a guide to right note-issuing policy. The advocates of the Bank Act denied that equilibrium was necessarily maintained at all times by leaving the management of the note issues absolutely free: the opponents of the Bank Act affirmed that—subject to one important condition—self-interest would maintain equilibrium. True, if there were more than one issuer, it was to the interest of each issuer to push as many notes into circulation as he could; but then, the self-interest of all the other issuers was to return his notes to him in order to leave more room for theirs. And all the issuers of notes together were at the mercy of all the holders of notes. *Given convertibility*, there could be no divergence between notes and coin. For if there were, notes would at once be presented for conversion. The upper limit of note issue was fixed by the unwillingness of the holder to hold a note if it paid him better to hold coin; the lower limit of note issue was given by the unwillingness of an issuer to leave a single would-be holder of notes unaccommodated. Competition between note issuers would see that the demand for notes was satisfied; the self-interest of note holders would see to it that not too many notes were issued as a consequence.

Granted this chain of argument, *both* monopoly of issue and control over the monopolized issue by law was unnecessary; for, if in the end the holder and not the issuer of notes controlled the situation, why interfere with existing rights in any way? On the other hand, to deny this optimistic chain of argument was still not equivalent to proving the necessity *both* of monopoly of issue *and* of controlling the issue by law, apart from uniting the issue in a single authority. The advocates of the Banking legislation of 1844 affirmed *both* that competition made for over-issue—'competition is to place a great public trust, for such the issue of paper money really is, in the hands of a body, when, by its own statement, it appears that it is in the interest of each separate individual of that body to violate the rule upon which the public interest

requires they should act, and even if interest does not lead them to violate it, they state that it is impossible for them to attend to that rule '[1]—*and* that not even a single issuer will manage his issues properly in the absence of adequate safeguards, since 'a close investigation of the events . . . has led observant and reflective minds to perceive that the constant right of converting your paper into gold does not secure with sufficient efficiency those which are really the ultimate ends and objects for which that convertibility was established '.[2] If the will and right of the holder of notes is not a safeguard against over-issue, temporary though that over-issue may be, the self-interest of the issuer certainly cannot be regarded as an effective safeguard, since it is obviously always to the immediate self-interest of the issuer to issue as many notes as he can. If he is to be restrained from increasing his issues too much, that restraint must come either from his knowledge of the ulterior consequences, which he may shrink from, or from the enactments of law. The problem cannot be left to be solved by the operations of 'demand'. But it is a far step from considerations of this sort to the detailed provisions of the Bank Act of 1844.

What the Currency School *wanted* was 'a regulation that depended upon principle, instead of a regulation that depended upon panic'; for a panic could only be met by 'paying out gold till the drain ceases', whereas the desirable policy was 'contraction applied in the early stages when it could be borne without inconvenience to the community . . . and would necessarily tend to counteract and check in their early growth those tendencies, viz. to speculation, overtrading, excessive rise of prices, which, by their undue expansion under our present system and the consequent violence of the subsequent collapse, produce the extreme intensity which characterizes the commercial crisis of this country '.[3] The practical embodiment of this wholly admirable ideal was the Separation of the Departments, by which the volume of notes issued was expanded and contracted (over and above a fixed fiduciary amount) in strict accordance with the

[1] S. J. Loyd (Lord Overstone) before the 1840 Committee; *v. infra*, vol. i, p. 50.

[2] *Infra*, vol i, p. 53.

[3] *Infra*, vol. i, p. 36.

inflow and outflow of bullion. This division *could* have been simply defended on the twofold plea that, as in a panic notes would be returned and ' there is no method of meeting it but by paying out gold till the drain ceases ', the notes ought to be specially protected, and that the Bank of England would be forced to govern itself in the Banking Department as the Bank Act forced it to govern itself in the Issue Department: that is, the Bank would always contract and expand credit in the Banking Department in strict accordance with the Banking Department's reserve. It could have been argued that the operations of the Bank as a whole would thus be governed in accordance with a ' principle ', and that that principle conformed to the ideal postulated by the Currency School. But this was *not* what the Currency School said: on the contrary, Overstone urged that ' the management of a paper currency and the management of banking deposits cannot be blended together in one system, and treated as subject to the same laws and to be governed upon the same principles '.[1] What was wanted was contraction; but the Bank was forced to *expand* credit in a period of strain and did, in fact, extend increased accommodation in such periods.[2]

Unable to see their way through this seeming contradiction, the Currency School fell back upon the thesis that deposits were not ' money ' and that it was the contraction of the monetary supply which was the vital matter. This distinction between what was or what was not money was, however, quite beside the point: because, even if deposits were not money, it was impossible, as Tooke urged, for the Issue Department to remain nominally solvent if the Banking Department was threatened with insolvency

[1] Overstone's *Tracts*, p. 63; cf. *loc. cit.*: ' The principles upon which these two branches of business ought to be conducted are perfectly distinct, and never can be reduced to one and the same rule.'

[2] *Op. cit.*, p. 83: ' The abstract possibility of contracting issues by an absolute refusal to discount cannot be doubted; the real practicability of such a step as a measure of business is, however, much more questionable.' p. 181: ' The Bank seems thus called upon to act in a circle; a decrease of bullion requires a decrease of issues; decreased issues produce commercial pressure; in consequence of which, public and private credit is shaken; and there arises the obligation of the Bank to interfere for its support . . . hence a second class of securities which in a period of pressure, instead of being diminished, must be increased.'

through the approaching exhaustion of its reserves.[1] And since, on the line of argument laid down by Overstone himself, contraction involved ' pressure ' and ' pressure ' an increase in the accommodation demanded at the Bank, any mismanagement of its loan policy by the Bank increased the danger of such insolvency of the Banking Department.

There is something to be said for the view that just because the Bank Act of 1844 involved a division of the business of banking from the business of note issue, it ultimately enabled the problem of ' credit control ' to be visualized more clearly than would otherwise have been the case: the Bank was prevented from managing the note issue at its discretion and yet the problem of controlling the credit situation remained. But the immediate effect of the Bank Act of 1844 was rather to accentuate these practical difficulties, by inclining the Bank Direction to regard the Bank as less peculiarly situated than was actually the case.

As for the intellectual difficulties involved, experience gradually showed that the ' contraction ' upon which the Currency School rigidly laid stress could not be, and need not be, defined in the purely quantitative and rigid form employed in the controversies of 1840–4. The process of clarification began with the inquiry which followed the crisis of 1847,[2] and comprehends the whole course of theoretical discussion from that day to this. Two points are of especial importance. The first is the realization that an expansion of banking accommodation at the moment of panic represents a nominal rather than a real expansion of purchasing power, and that the power to expand often prevents the actual necessity for expansion at such times. The second point is less

[1] ' A most absurd, however disastrous a state of things. But it would be too disastrous and too absurd to be allowed to take its course. If such a crisis were to happen, . . . the Government would be imperatively called upon to interfere and prevent so ridiculous, however lamentable a catastrophe. And the only interference that could meet the emergency would be to authorize a temporary transfer of coin from the issuing to the banking department.' *Inquiry into the Currency Principle*, p. 110.

[2] *V.* Section III of the Report of the Secret Committee (House of Lords) on the Commercial Distress, 1848: ' The Act appears to assume that one fixed Amount of Notes out of the Custody of the Bank, and in the Hands of the Public, will at all Times produce the same Effect and will be governed by the same Laws. Unless this Proposition be true the uniform and fixed Rules of the Act of 1844 can hardly be justified. . . .'

amenable to summary statement. The Currency School, thinking out the problem of ' restriction ' and ' contraction ' in terms of what would have happened under a ' purely metallic circulation ', fell almost inevitably into the assumptions that restriction and contraction must involve a quantitative reduction of the volume of purchasing power below its initial level, and that such a reduction could only take place by an abstraction of purchasing power from out of the hands of the public.[1] It is an almost inevitable consequence, further, of this way of approaching the problem that the influence of the gold exports upon the price-level in the recipient countries should be neglected and that the degree of contraction necessary should therefore be exaggerated. The real terms of comparison, however, are not these at all, but are the volume of purchasing power which would have been in existence if the Central Bank had not pursued a restrictive policy and the volume actually in existence under restrictive conditions. ' Raising the Bank Rate ' is intended to prevent engagements from materializing which would have resulted in an increase of purchasing power. The test of whether restriction has been successful, therefore, is not the extent to which the volume of purchasing power falls below the pre-existing amount, but the degree to which expansive tendencies are held in check. In sum, whilst the Currency School realized the general nature of the problem to be solved, and of the general principles involved, the analysis by the School of means and technique to attain the end desired was in no sense final.

[1] Very soon after the passage of the Act, Lord Overstone was forced to substitute an abstraction of notes from the Banking Department of the Bank for a reduction of notes in circulation as the *measure* of successful contraction. ' By the Act of 1844 . . . a new source of useful information and admonition was opened to the public; they were taught to direct their attention to that portion of the circulation which consists of notes in the banking till; and the means of watching the fluctuation of this part of the circulation were provided. We are now reaping the fruits of this simple, but wise precaution. A continuous decrease of that portion of our circulation which is to be found in the Bank till has occurred; and this fact, not, as formerly, mystified and obscured by a vicious state of the law, but rendered clear and notorious to the whole public, *has produced all the effects of contracted issues*.' *Letters on the Bank Charter Act, &c.*, in *Tracts*, p. 330.

§ VI

For thirty years after its passage, the merits and demerits of the Bank Act of 1844 dominated the field of discussion, until towards the end of the 'seventies of last century the Bimetallic agitation took pride of place. It is this unsettled state of public opinion which lent to the ' crises ', or ' panics ', of 1847, 1857, and 1866 much of the importance which they have acquired in the literature of British banking. For the ' panics ' of those years were accompanied by, and led to, a ' suspension ' of the Bank Act, and it was inevitable that this should have called into question the wisdom of legislation which appeared to break down at the moment of greatest strain. Any rational treatment of the period requires, however, a preliminary recognition of the fact that these years marked the stage of transition from the upward to the downward phase of trade activity in the apparently endless but fairly definite rhythm of economic life. The trade cycle was not the product of the Bank Act of 1844: there had been panics before ever the Departments of the Bank were separated. The most that can be urged is that the hope of the Currency School that the amplitude of the Trade Cycle would be moderated and Panic prevented had not been realized, and that the Bank Act of 1844 was a factor *accentuating* both the amplitude of the Cycle and the extravagances of the Panic.

Encouraged by Sir Robert Peel to think that the business of the Banking Department ' should be governed on precisely the same principles as would any other Body dealing with Bank of England notes ',[1] and that ' the banking business, as distinguished from Issue, is a matter in respect to which there cannot be too unlimited and unrestricted competition ',[2] there was every reason, urged the critics of the Bank Act, for the Bank Directors to do as they actually did as soon as the Act came into force: namely, lower the Bank rate to a competitive level, and thus increase very

[1] *House of Commons Debates*, vol. lxxiv (series 3), 6 May 1844, col. 742.

[2] *Loc. cit.*, col. 743: ' The principle of competition, though unsafe in our opinion when applied to Issue, ought, we think, to govern the business of banking. After the issue of paper currency has once taken place, it is then important that the public should be enabled to obtain the use of that issue on as favourable terms as possible.'

considerably the holding of Bills of Exchange.[1] For any expansive influence which this may have had on the credit cycle,[2] the Act, and not the Directors, was to blame. That the Act added to the extravagances of the Panic was simply due to the fact that, so long as the money market did not know whether facilities for further borrowing would be available or not, every one would try to cover his needs whilst there was yet time, and then the reserve would be exhausted because people were afraid it would be exhausted. That the suspension of the Act mitigated the Panic of 1847 was admitted by the Governor of the Bank in cross-examination in 1848;[3] whilst in 1857, it is clear from the examination of the Governor and Deputy Governor, the fact that the crisis was less severe than it had been in 1847 was due, in their opinion, to the Bank lending freely in anticipation of the issue of a Treasury Letter, and to the public believing that such a letter would be issued.[4]

Logically, however, there is no necessary connexion between

[1] Tooke, *History of Prices*, iv, p. 294.

[2] If the operations of the Bank are summed up, it will be found that up to the period culminating in 1857, bank rate is both relatively low and relatively stable, whilst after that date down to the period ending in 1878, Bank rate tends to be both higher and much more unstable. Taking Palgrave's Tables (*Bank Rate and Money Market*, pp. 82, 97, 196) as basis, the average rate of discount and the number of changes in the Bank rate during the following ten-year periods were:

	Bank rate of discount.	*Number of changes in Bank rate.*	*Proportion of Reserve to Liabilities.*
1845–54	£3·46%	27	52%
1855–64	£4·64%	89	42%
1865–74	£3·80%	113	43%
1875–84	£3·19%	66	44%

Averages throw no light upon degrees of variation. In the period 1844–7 the variation in the reserve ratio was between 59% and 33%; in 1848–57, between 63% and 30%; in 1858–66, between 58% and 30%; and in 1867–78, between 52% and 37%. The average yearly ratios improve, the range of fluctuations declines: the changes indicate the changing tendency of Bank policy. And in this connexion it must not be overlooked that the earlier decades of the Bank Act coincide with the Australian and Californian gold discoveries, when the maintenance of a relatively high level of reserves was therefore easier.

[3] *V. infra*, QQ. 3155, 3171.

[4] *Select Committee on the Bank Acts*, P. P. 1857–8, v, especially QQ. 87, 92, 93, 99, 247, 569–73, &c.

the Separation of the Departments and the policy actually pursued by the Bank. It does not in the least follow, because the notes ought to be specially protected, that therefore the Banking Department should be free to pursue the same policy as any other bank. Nor does it follow from the fact that the Act of 1844 exaggerated the violence of panics, when they did occur, that therefore the Act was useless: if the Act did in general force a sounder policy on the Bank than it would otherwise have pursued, it might reduce the chances of panics occurring; and it is no answer to this contention to say that if the panic did occur, the Act became the reverse of useful. The difficulties of the Bank between 1847 and 1866 arose from the circumstance that only gradually was it realized that the Act of 1844 did not provide an automatic protection against unsound banking policy: in other words, that the Bank was not placed in the position of any other bank, merely because its control over the note issue was more restricted than it had been.

§ VII

Controversy was not confined, however, to the general principles of the Act, and by 1858 a whole series of detailed issues, involving the fundamentals of the modern theory of Central Banking, had quite clearly emerged. The fame of Bagehot has resulted in somewhat less than justice being done to Bagehot's predecessors, for the whole significance of Bagehot's great plea for the recognition of the special position of the Bank of England is lost unless it is put into its proper place in the chain of contemporary thought. Bagehot lent a pen of great genius to the view that was already in the ascendant, but which lacked wholehearted acceptance. He did not kindle a controversy, but extinguished one, and Thompson Hankey's querulous protest was already out of date at the time when *Lombard Street* was issued.[1]

Of these detailed issues six are of permanent importance.

(1) The ' relaxing power ', that is, the question of whether the

[1] Nor must it be overlooked that if Bagehot accepted the facts, he did so with misgiving. The ' natural ' system was one of decentralized, not of centralized reserves, and the one-reserve system would never have been evolved ' if Government had let banking alone '. A more question-begging statement by a man of genius can hardly be imagined.

machinery by which the Bank Act could be suspended should be regularized or not, had been discussed even before the Bank Act was passed. Thus even Overstone had agreed that the Bank of England must be given ' a discretionary power of suspending her obedience to principle ' *unless* a ' direct control . . . over the country issues ' were established.[1] Peel had written to W. Cotton, Governor in 1844, that though his ' Confidence is unshaken, that we are taking all the Precautions which Legislation can prudently take against the Recurrence of a pecuniary Crisis ', yet ' it may occur in spite of our Precautions; and if it does, and if it be necessary, to assume a grave Responsibility for the Purpose of meeting it, I dare say Men will be found willing to assume such a Responsibility '.[2] The matter had been discussed in the House of Commons by Wood, the Chairman of the 1840–1 Committees, who objected to any discretionary power being given to Government, on the ground that this would subject it to intolerable pressure.[3]

The matter naturally assumed still greater importance after the suspension of the Act in 1847: the important section of the Report of the House of Lords recommending such a discretionary power is printed below.[4] Overstone, though opposed to any general power of relaxation, admitted that the intervention of the Government in October 1847 was necessary, and that, though no discredit attached to the Act of 1844, ' circumstances may occur in mercantile affairs, and in the confidence on which mercantile affairs are based, of such a peculiar character that some interference may be desirable for the purpose of alleviating the intensity of pressure arising from the destruction of confidence '.[5] By 1857, as we have seen, the Bank was already assuming that such a letter would be issued, and the Committee of 1857–8, although approving of the absence of a general relaxing clause in the original Act, were in favour of amending the Act in this direction in future, though ' it scarcely . . . constitutes, of itself, a sufficient ground for bringing this important and difficult sub-

[1] *V. infra*, vol. i, p. 52.
[2] *Lords Report of* 1848, Q. 3284; cf. *infra*, vol. ii, p. 38.
[3] *House of Commons Debates*, vol lxxiv (series 3), 20th May 1844, col. 1371.
[4] *Infra*, vol. ii, pp. 36–46.
[5] *Commons Committee*, 1848, Q. 5157.

ject under the review of Parliament, and may safely await the decision of the Legislature when the other branches of the subject shall again be dealt with '.[1] By 1857, opinion was, however, already moving forward to a tentative discussion of the possibility of combining a fluctuating fiduciary issue with a sliding scale of interest charges—the basis upon which modern Central Banking Constitutions are so largely built up.[2]

(2) The question of the Relaxing Power raised in an acute form the question of the Government of the Bank of England, for the expediency of vesting the Relaxing Power in the hands of Government or the Bank turned in part upon the fitness of the Bank Court to exercise such a grave responsibility. The same issue was involved in the discussion of the Discount Rate. Could a Court composed of merchants be expected to act with sufficient promptitude and in a sense, perhaps, opposed to their own immediate pecuniary interests? Doubt upon this point was one of the factors making, not only for the Separation of the Departments, but for a Government Note Issue. If the Court could not be expected, in view of its composition, to be really impartial, would it not be best to entrust the control of the note issue, on the lines suggested originally by Ricardo, to a separate body of Commissioners and leave the Court to manage the business of banking as it thought best? Deprived of the power of note issue, there would be less danger of a policy being pursued by the Bank which was antagonistic to the true interests of the nation.[3]

Some information had already been collected by the Committees of 1832 and 1840; and by 1848 dissatisfaction with the existing situation had gone far enough to warrant the Lords' Committee to express itself warmly on the subject[4]: the Commons' Committee, emphasizing the deep interest felt by the ' Public ' and the ' Proprietors of Bank Stock ' in ' every measure calculated

[1] *Report*, para. 72.

[2] *V. infra*, vol. ii, p. 52; also Mr. Gladstone's cross-examination of D.B. Chapman, 1857 Committee, QQ. 5000 *et seq.* The conception ultimately goes back to Tooke. *V. infra*, Newmarch's evidence.

[3] On the contemporary official point of view, *v.* the elaborate memorandum (written by G. Arbuthnot of the Treasury), presented to the 1857 Committee by Sir G. C. Lewis, P. P. 1857–8, v, pp. 414 *et seq.*: *Memorandum on the Question of establishing a National or State Bank.*

[4] *V. infra*, vol. ii, pp. 41 *et seq.*

to ensure an enlightened administration of the affairs of the Bank', refer 'with satisfaction' to recent changes announced by the Court 'as to the selection of the Governor and Deputy Governor, calculated, in the opinion of Your Committee, to improve the constitution of the governing body of the Bank'.[1] Opinion was still very divided on the issue of appointing a Permanent Governor, as it still was in Bagehot's time, and indeed still is; but in 1857 the Bank Court itself voted in favour of altering the law relating to the number of Directors retiring each year—a minor issue which was not finally settled until the Bank Act of 1892, which left the proportion to the Court itself.

(3) Before the passage of the Bank Act, the Discount Rate had mainly been discussed in relation to the Usury Laws. Up to 1844 the Bank rate had been practically a fixed rate of 4 per cent., though in the pressure of 1836–7 the rate had gone up to 5 per cent., and in the second half of 1839 had gone up to 6 per cent. The Bank held that it ought not to compete with the market; bills of exchange were not regarded as desirable objects of cover for the note issue in normal times, and the control over the total volume of interest-earning assets was to be accomplished by selling Government securities as the volume of bills presented rose, thus keeping the total of all securities steady.[2] After 1844 all this was to alter; and the problem of the discount rate and its relation to the market rate of discount became subjects of acute controversy. It is not going too far to say that the problems then raised have not yet received their definite answer.

There are in all inquiries relating to the discount rate two problems. The first is the effectiveness of the discount rate as a *means of control*; the second is the degree of discretion which the nature of the economic system allows to the system of interest rates *as a whole*. The latter question is one involving the relation of the money rate of interest to the real rate of interest on capital, and has nothing to do with the issue, also largely discussed after 1844, whether the Bank rate should be above or below the market

[1] Commons' Report, 1848, p. v. The change consisted in the abolition of the rule of strict seniority. *Evidence*, QQ. 2697–8 (and *Lords' Report*, *infra*, p. 190).

[2] *V.* evidence of Governor and Deputy Governor before the Commons' Committee of 1848, *infra*, vol. ii, pp. 13 *et seq.*

rate in normal times. The state of opinion at the Bank of England in the middle of the nineteenth century with regard to the efficacy of the Bank rate, compared with other possible devices, as a means of control over the Reserve, is very clearly depicted in the evidence before the Select Committee of 1857–8 reprinted below.[1] By 1857, the Usury Laws had been completely swept away, the Act of 17 & 18 Vict. c. 90 abolishing all the restrictions still remaining; and no obstacle stood in the way of any rise in the Bank rate considered necessary. Ten per cent. had been charged during the crisis of 1857.[2]

A Central Bank which desires to stabilize its discount rate will find its discounts falling off sharply at periods when the market rate is falling fast below its own fixed level, and rising sharply when the market rate is rising above the fixed level. A fixed rate of discount at the Central Bank is, therefore, accompanied by considerable variations in the volume of bills held by it. A Central Bank which desires to stabilize the volume of its bills can do so by keeping its rate near the market rate when the latter is rising, and lowering it *less* rapidly than the market rate when the latter is falling. A Central Bank which desires to stabilize its reserve must sometimes raise its rate faster, and sometimes lower it faster, than the market rate. The difficulty in pursuing any one of these ends is that the change in Central Bank rates may (and probably will) affect the market rate; so that in periods of falling rates a reduction in the Central Bank rate will cause market rates to fall still more (because the Bank has not to pay interest on deposits and the market largely pays interest), and a rise in Bank rate forces more than proportionate rises in market rate upon the outside market.

In practice, of course, no Central Bank can afford to follow any *one* of these aims exclusively. It must pay some regard to the susceptibility of the outside market, which resents continual changes in the Bank rate; it must have some regard to its own earning capacity, which exercises some, if only a subordinate, influence (as the Bank has the alternative of holding fixed interest-bearing securities) upon its policy; it must necessarily, and in all

[1] *V. infra*, vol. ii, pp. 50 *et seq.*
[2] *V. infra*, vol. ii, pp. 46 *et seq.*

cases, pay great attention to the reserve position. The significance of the discussion between 1844 and 1858 lies in the fact that each of the various groups tended to stress *one* of these ideas: the Banking School the stability of the discount rate,[1] the representatives of the Bank, at first, the right of the Bank to regard earning capacity,[2] and only later the necessity to regard the status of the Reserve; the Currency School, paradoxically enough, in view of the previous line of argument, to stress the importance of the discount rate as a means of control.[3]

(4) The position of the Bank as an ultimate reservoir of credit led to one development of great interest: the attempt to force the bill brokers into a position of greater independence in normal times. In 1857–8 a great deal of attention was devoted to the position of the bill brokers, who had by that time long ceased to be merely intermediaries earning a commission and had become dealers in bills, borrowing at call and investing the proceeds in bills. In view of the fact that banks were still largely local in character, the function of the bill broker was almost indispensable, since he linked up banks with surplus deposits and banks with less deposits than they could use. To some extent the broker competed with the banker by taking bills direct,[4] and the bill-broking system was not free from defects. It encouraged banks to discount bills too freely, and was thus in part responsible for that abuse of bill-credit which was a marked feature of the banking world;[5] and since the dealer paid interest on all money at call, he held no reserve of cash, relying on the Bank of England to

[1] *V. infra*, vol. ii, pp. 60 *et seq.*; and vol. ii, pp. 66 *et seq.*

[2] Cf. *infra*, vol. ii, p. 32, Q. 3008: 'When the rate of interest out of doors was 1½ to 1¾ per cent. to 2 per cent., *if the Bank pretended to act as discounters* it was absurd to attempt to keep their rate of discount at 4 per cent.' (*Commons Committee*, 1848). Cf. QQ. 2654, 2845, 2883.

[3] *V.* James Wilson's amusing comments on Lord Overstone's epistles to *The Times* (under the pseudonym of *Mercator*: *Tracts, &c.*, pp. 309–[373], so paged in original), in a letter to Sir G. C. Lewis: 'how charmingly he persists in a high rate of interest as the only security, which is just what he never dreamt of before when the fluctuation in the circulation of notes was to do everything, and when those opposed to the mere currency theory insisted that it was the rate of interest only that could regulate the money market.' *V.* Mrs. E. I. Barrington's *The Servant of All*, 1927, vol. ii, p. 21.

[4] *V. infra*, vol. ii, p. 79.

[5] P. P. 1857–8, v, QQ. 4217, 1962–1996.

save him if his money were called. Early in 1858 the Bank decided to refuse discount accounts to the brokers and ' to make the transactions of the Bank confined entirely to advances. These advances will be the usual quarterly advances, and if they apply for advances at any other time, they will be considered special and dealt with accordingly '.[1]

Cross-examination speedily revealed that it would be impossible for the Bank to refuse accommodation at ' moments of extreme difficulty ', but the step was undertaken primarily to free the Bank in more normal times, and it was at first approved of by the financial press. ' As the bill brokers are the rivals of the Bank,' argued the *Economist*, ' they cannot reasonably expect that the Bank should act towards them with special and peculiar favour . . . there is no reason why an eminent bill broker should depend on the Bank of England any more than the London Joint Stock Bank or the London and Westminster Bank.' Since the Bank keeps the ultimate reserve, ' so far, therefore, from its being its duty to make advances which other banks would not think it wise to make under similar circumstances, its duty is of an opposite kind—is a duty of caution and prudence '.[2] By 1860, however, the paper was changing its tone: the action of the Bank was making the status of the broker less eligible than it had been, and a compromise was suggested. ' Why should not the bill brokers become regular customers of the Bank? The bill brokers, it is evident, must now keep some reserve: unless they do so, now that they have no access to the Discount Office of the Bank, their position is not safe for a day. . . . But why should they not keep it at the Bank of England? If the bill brokers habitually kept a large balance to their credit at the Bank of England, they would be good customers of the Bank, and would have a right to be treated as other good customers are.' [3]

So long as the Bank kept its rate low enough to be certain at all times of obtaining some of the floating supply of bills, it could afford to cut off the bill brokers from facilities at the Bank in normal times. The market rate tended to be somewhat higher

[1] *V. infra*, vol. ii, pp. 76 *et seq.*
[2] *Economist*, 1858, p. 305.
[3] *Economist*, 7th April 1860.

than Bank rate in the years 1865 to 1871 (though the trend was a falling one), but after 1872 there was an equally marked tendency in the other direction.[1] In 1878, as part of its policy of no longer feeling bound to adhere to its published minimum when discounting for its own customers, the Bank reverted to the practice obtaining before 1858,[2] but, while giving advances, refused to discount for brokers. In 1883, however, it again reversed its rules, and intimated to the brokers that it proposed to restrict advances: again with the approval of the *Economist*.[3]

After 1886 it will be found that the margin between Bank rate and open-market rate tended to be nearly twice as large as it had been in the earlier years of the decade; the inevitable consequences were that the Bank lost discounts and that the financial press should be insistent upon the desirability of the Bank intervening to control market rate and increasing its volume of bills, a demand which continued after the Baring Crisis.[4] In the second half of 1890 the Bank again altered its policy, and admitted the bill brokers to *discount* facilities, at first on short bills and subsequently on longer-dated paper.[5]

(5) Closely connected with the question of call money to the

[1] *V.* Table 4 in Palgrave, *op. cit.*, p. 33.

[2] Palgrave, *op. cit.*, p. 51.

[3] 'What has been spoken of as a new departure, but which is really only a return to former practice, has been made by the Bank Directors this week. They have given the bill brokers to understand . . . that in future their facilities for obtaining advances may be somewhat curtailed. While the Bank will . . . be ready as before to lend during the period at the close of each quarter . . . it may at other times, it has been intimated, leave the brokers to rely more upon their own, or at least, upon outside resources than they have done. And in this it certainly is acting rightly . . . there can be no doubt that of late brokers have come to rely far too much upon the Bank. They have reckoned upon getting advances there almost as a matter of course whenever they have applied for them, and in this belief they have entered into engagements which if they had not thought the Bank was behind them they possibly would not have risked. The belief, too, that the resources of the Bank would always be available at ordinary rates if necessary has enabled the brokers to borrow more freely than they would otherwise have been able to do, because the outside lender had, or thought he had, the assurance that if he called in his money the broker would be able to fall back upon the Bank.' (1883, p. 485.)

[4] *Statist*, 29th November 1890, p. 613: 'It is very desirable that the Bank should discount bills much more largely and much more freely than it does at present.'

[5] Palgrave, *op. cit.*, pp. 51–2.

bill brokers is the question of the rate of interest paid upon deposits. The tendency of opponents of the Joint Stock Banks before the 1857 Committee was to argue that they were tempted into dangerous courses by the high rate they paid upon deposits. From the evidence given by two leading Joint Stock Bankers in London,[1] it is clear that the general rule was to pay 1 per cent. under Bank rate, but that the more cautious bankers tried to prevent the rate from rising indefinitely as Bank rate rose, though it was impossible to get united action upon the point. In the seventies the problem was much canvassed; and for a time, in November 1877, the banks and brokers emancipated themselves from the rule, but failed early in 1878 to get a meeting at the Clearing House to agree upon a continuous policy. The danger was that, after the change in the Bank's practice in 1878, Bank rate was no longer a safe guide to the amount that banks could safely pay upon deposits, but the difficulty had already been recognized before that change took place. Arthur Ellis, writing in 1876, was already pointing out that 'the custom worked well enough while the Bank of England was the supreme power in the money market, when its rate of discount was the real gauge of the value of money, and when any one lending money at a rate differing much from it would be instantly suspected of doing unsound business; but times have changed, and the Bank rate no longer gauges the value of money with precision, and the Bank itself is a minority, no doubt a very respectable one, but only a part of the forces determining the value of money. . . . The Bank rate in fact has ceased to be a proper guide to the rate of interest which the banks may allow for the deposits left with them, for the anomaly sometimes occurs that the rate so allowed by the banks has exceeded the rate which they can *with safety* obtain for the money entrusted to them.'[2] The altered situation in the eighties led to a change of tone on the part of the financial press: the banks were now accused of paying too low a rate of

[1] *Infra*, vol. ii, pp. 86 *et seq.*

[2] *Rationale of Market Fluctuations*, p. 39. Cf. *Economist*, 9th February 1878, p. 150; and '*Economist*' *Commercial History* for 1878, p. 39. If these and other articles are compared with Palgrave's *Bank Rate and Money Market* on these subjects, it will appear clear that they were written by Palgrave.

interest upon their deposits and thus of helping to keep market rate too much below Bank rate.[1] During the Great War, having for many years paid 1½ per cent. below Bank rate on deposits subject to seven days' notice, the banks resorted to a margin of 2 per cent., which they still maintain.

(6) After 1844 the growing importance of the Bank rate as a means of control thrust discussion of alternative methods into the background. This seems to be the explanation of why nothing more is heard of the proposal put forward by Gilbart that the Bank should hold foreign securities and foreign bills: should contract the circulation when it sold the foreign holdings and build them up again by increasing its circulation.[2] This is, of course, the 'Gold Exchange Standard', and it is interesting to notice that even Lord Overstone thought that 'the plan is certainly unobjectionable upon principle'; but he also thought that it had the disadvantage that the Central Bank would be so great a factor in the exchange market as to upset the 'ordinary action of the exchange dealers and to prevent their taking that course which, under ordinary circumstances, they would take'.[3]

§ VIII

Only twice since 1857–8 has the curtain which veils the operations of the Bank of England from vulgar scrutiny been even partially lifted. In 1875, when the opening of London offices by the Scottish banks outraged the feelings of English bankers, a Bill introduced by Mr. Goschen led to the appointment of a Select Committee on 17th March 1875 'to consider and report upon the restrictions imposed and privileges conferred by Law on Bankers authorized to make and issue Notes in England, Scotland, and Ireland respectively'. The evidence taken before that Committee very largely turned upon the 'monopoly' possessed by Scottish banks in Scotland owing to the right to issue £1 notes, and on the unfairness, therefore, of allowing 'subsidized' competition with English bankers hampered by the provisions of the Act of 1844. A good deal of evidence was presented showing the value of small local circulations, though the statistical evidence

[1] *V. Statist*, July–December 1889, pp. 350, 379, &c.
[2] *V. infra*, vol. i, pp. 97 *et seq.*
[3] *V. infra*, vol. i, p. 48.

also showed clearly the tendency for the note to lose in importance[1] and for the Bank of England circulation to take the place of local issues. Among the witnesses was Walter Bagehot, in his capacity of Director of Stuckey's Bank, and his very characteristic evidence is printed below.[2]

The two representatives of the Bank of England who gave evidence—Kirkman Hodgson and the Deputy Governor, E. H. Palmer—were still, on the whole, partisans of the characteristic ideas of 1844: Unification of Issues and the Separation of Departments. In the public interest, they thought it desirable that the Scottish and Irish issues, as well as the remaining English country issues, should be taken over by the Government or the Bank ('That is a matter of arrangement which the Government of the day would determine'[3]), but they were absolutely against £1 notes in England ('Anything more inexpedient or unnecessary than to reissue £1 notes in England I cannot well imagine')[4]; the risk of forgery and the cost would be very great, and an increase in the issue of fiduciary notes would 'impair the convertibility of the note'[5]—an amazing argument based on the view that if more fiduciary notes were issued 'it would reduce your stock of gold in the country'![6] The view that the Bank of England was the *de facto* holder of the entire reserve of the country was not accepted without scruples as regards Scotland; the Scottish banks had not the same moral claims 'as banks in other portions of the Empire', for, 'as regards banking, the Bill of 1845, which gave you great privileges, made you a foreign country'.[7]

[1] There is, however, a tendency among writers on banking to overlook the fact that if, on the one hand, the cheque took the place of the note after 1844 (and as a consequence of the Act of 1844), the Act, of course, also encouraged a large gold circulation.

[2] *V. infra*, vol. ii, pp. 266 *et seq.* [3] Q. 7444.

[4] Q. 7489. [5] Q. 7594. [6] Q. 7596.

[7] Q. 7954. The next question and answer shows how hopelessly 'academic' this dispute was:

'Supposing that we have securities in England which we dispose of, and come to you in a legitimate way to get gold for them?—The only legitimate way in which you can come to us in a crisis is with bank notes in your hand, and then we will give you as much gold as you have in bank notes; but in this case you could not dispose of those securities and you came to the Bank of England, especially in 1857, and you brought masses of bills to discount. Those bills were discounted, the notes were taken out of our till, you went to our issue department, you cancelled

The possibility of introducing the £1 note was relatively soon, however, to spring into great prominence. The Baring Crisis of 1890[1] resembles the crisis of 1866 in this respect, that it originated, not in mismanagement of affairs by the Bank of England or by the short-loan market, but in the lock-up of funds by merchant bankers. The house of Overend, Gurney & Co., by the time of their failure, had ceased to be purely a bill-broking house and had branched out into ventures which had brought it great losses. The panic of 1866 arose from the fact that the firm owed enormous sums to the money market at call, and therefore its failure imperilled the whole banking system. The position of the Barings was very similar: 'they were not satisfied with the safe and magnificent profits which their splendid merchant banking business yielded', and they became illiquid because they were unable to dispose to the public of the mass of South American securities which they were carrying. The danger to the banking system came from the fact that they were the leading accepting house of the day, and any failure to meet their acceptances would have struck a vital blow at the whole money market. The two epochs differed because the failure of Overend's led to a panic and the failure of the Barings did not: the liabilities of the Barings were guaranteed by a syndicate headed by the Bank of England, and their affairs were successfully liquidated, without a suspension of the Bank Act and without any inordinate rise in Bank rate..

The Baring crisis raised two series of questions. The Bank was criticized,[2] on the one hand, for putting itself into a position in which it assumed obligations on behalf of a single firm so great that if the crisis had not been immediately overcome it would have been impossible for the Bank further to assist the market; on the other hand, it was something of a puzzle to the men of the time that there was no full-blown panic. These were the immediate reactions to the crisis. The ultimate ones were con-

the notes, and you took our sovereigns away to Scotland, and we were compelled to suspend the Act of 1844. We could have refused you, but supposing we had refused you!'

[1] *V. infra*, vol. ii, p. 187.

[2] At one moment the Bank had advanced as much as £7½ millions to the Barings; *v.* the Governor of the Bank, reported in *Economist Banking Number*, 1891, p. 8.

cerned with the whole drift of the money market situation, and particularly with the Reserve question. This in itself comprehended two aspects: the Reserve of the Bank, and that of the outside market, kept for the greater part in the shape of Other Deposits at the Bank of England. Both were inadequate, but the inadequacy of the Reserve of the Bank was illustrated by the fact that (through the good offices of the Rothschilds) the Bank of England borrowed £3,000,000 from the Bank of France, whilst £1,500,000 was obtained from Russia by the sale of Treasury Bills.

Goschen attempted to solve these problems by falling back upon the issue of £1 notes and the creation in connexion therewith of a 'second Reserve'. After the Issue department held a certain amount of gold, the £1 note might be issued on a fiduciary basis in the proportion of £4 against gold and £1 against securities; and the whole scheme culminated in a proposal to regularize the use of the gold in the Issue department for the purposes of the Banking department, that is, to sanction the possibility of an increase in the fiduciary issue without the necessity of a 'Treasury Letter'.[1] These proposals failed to mature; and, until the outbreak of the European War, the Bank Act remained what it had always been. Thereafter, indeed, the situation was to undergo great changes.

If, in spite of an almost continuous undercurrent of agitation and discussion upon the inadequacy of the gold reserves of the country and of the dangers incurred in "spinning a top on a needle-point", nothing was done,[2] the reason lies in the fact that by the end of the nineteenth century the conditions of banking had

[1] For the evolution of Goschen's theory, *v.* his *Essays and Addresses on Economic Questions*, pp. 102–30. Cf. H. S. Foxwell, 'Mr. Goschen's Currency Proposals', in *Economic Journal*, vol. ii, pp. 139 *et seq.*

[2] *V.* Prof. H. S. Foxwell's summary in his Introduction to G. H. Pownall's *English Banking*, p. xiii: 'The appeals made in the last twenty years by such men as our author, the late Viscount Goschen, Sir Inglis Palgrave, Sir Felix Schuster, Sir Edward Holden, the late Mr. Spencer Phillips, Mr. Crammond, and others had been made in vain. Received in some quarters with cynical indifference, they never obtained more than a lukewarm, platonic assent. So far as published figures go, no appreciable result is traceable. Other nations, on the average, roughly doubled their reserves; we were content to talk about it.'

largely changed. The private note issues had almost disappeared, and the chances of an internal panic were declining, partly because the technique of banking generally had greatly improved, mainly because the banks were individually growing in size and were therefore likely to be better administered. On the other hand, the Bank of England had learnt the art of adapting its reserve policy to the exigencies of the Bank Act, not by the accumulation of vast reserves, but by a manipulation of its securities[1] so as to make Bank rate effective. The various elements in the money market were in close touch; and, above all, the problem was eased by the growing sensitiveness of the International Money Market to movements in the British Rate.[2] The American crisis of 1907 and the crisis which accompanied the outbreak of war in 1914 both illustrated the enormous strength of the credit position of London. The policy of economy in gold reserves was based upon an instinctive recognition of the principle that it is not the absolute size of the reserve, so much as the power to keep the reserve actually possessed at the normal level considered desirable, which is the true test of the capacity of a Central Bank to control the situation. It does not in the least follow that the *actual* reserve held was arrived at as the result of scientific reflection: there is, indeed, every reason to suppose the contrary. It may have been true, therefore, that with a larger reserve the normal level of the discount rate might have been somewhat lower and that some fluctuations in that rate might have been avoided. To that extent the critics of the pre-war situation were no doubt justified. On the other hand, so long as London remained the financial centre of the world, the stability of the London rate was bound to be less than that, say, of the French rate, because France was not a free market for gold.

[1] As early as 1849 the Bank borrowed on Consols to strengthen the reserve; *v. infra*, p. 163. In December 1905, if the late Mr. J. Spencer Phillips's account to Lloyd's Bank shareholders is correct, the Bank asked the co-operation of the Clearing Banks 'to take the surplus money off the market and place it on deposit with the Bank at a low rate of interest. The Bank then charged 5 per cent. on their advances, and the effect was electrical. . . . This precedent has been followed again during the present month (January 1906) by the Bank.' Cited, E. T. Powell, *Evolution of the Money Market*, p. 650.

[2] *V. infra*, vol. ii, p. 191.

We owe to the initiative of the National Monetary Commission of the United States, appointed as a direct result of the crisis of 1907, the only glimpse into the mind of the Bank of England which has been vouchsafed to the world since 1875.[1] After 1877, certain statistical information, formerly made available, no longer appeared.[2]

§ IX

On 12th May 1836, Mr. William Clay moved in the House of Commons[3] that ' a Select Committee be appointed to inquire into the operation of the Act of the 7th Geo. 4, cap. 46, permitting the establishment of Joint Stock Banks, and whether it be expedient to make any and what alterations in the provisions of that Act '. The grounds for the motion cannot be better put than they were by the speaker himself. Under the Act of 1826, he said, ' a system of Joint Stock Banking has grown up already of great magnitude, which is daily extending its ramifications, and which promises very shortly to comprehend every portion of the Kingdom, and every class of the population within the sphere of its operation '; and this growing movement suffered from a lack of due legal regulation: ' I cannot but think that the circumstances I have now stated to the House—the vast and growing system of Joint Stock Banking on the one hand, the absence of all legal control over the working of that system on the other—constitute a state of affairs very far from satisfactory, and especially if looked at in combination with certain others, or at least, without considerable anxiety. We have called into existence, we have introduced into our monetary system, an element of tremendous power. We have taken no precaution to limit or control its operations.'

These statements are the more remarkable if it is borne in mind how relatively little developed the Joint Stock Banking movement still was. *An Account of the Number of Private and Joint Stock Banks registered in each Year, from* 1820 *to* 1842

[1] *V. infra*, vol. ii, pp. 307 *et seq.*

[2] H. W. Macrosty, ' Submerged Information—Banking ', in *Journal of the Royal Statistical Society*, 1927, pp. 365 *et seq.* Cf. Palgrave, *op. cit.*, chap. I.

[3] *House of Commons Debates*, 3rd Series, vol. xxxiii, col. 840 *et seq.*

inclusive[1] (which does not, however, appear to include the London Joint Stock Banks which did not benefit from the Act of 1826) shows that between 1826–7 and 1835–6 the number of registered joint-stock banks had risen from six to fifty-five. During the same period the number of private banks registered had fallen from 465 to 407, the great mortality having taken place in the crisis year 1826, for the number registered previously had risen from 521 in 1820–1 to 554 in 1825–6. The tendency is, however, unmistakable; and in 1836–7 the number of registered joint-stock banks had jumped to 100, the number of private banks had fallen to 351. By 1841–2 the numbers were respectively 118 and 311. The movement towards ' banking amalgamation ' had already begun; and so had the necessary concomitant—branch-banking. According to Clay's statement, in March 1836 the 61 joint-stock banks then registered were established at 472 places and had 15,670 ' partners ', that is, shareholders. Between 1836 and 1862 the question of Joint Stock Banking—in particular the issue of whether or not these banks were to enjoy the benefits of limited liability—was to rank second only to the problem of the Note Issue.

The Act of 1826 applied only to banks outside the sixty-five-mile radius, and the new banks were forbidden both to have an office within that area and to draw demand bills for any sum or bills under £50 for any date, on their London agents. All the shareholders were liable for all the debts of the company; all proceedings were to be taken against, and in the name of, two or more partners, who were to be public officers, but any judgments obtained against such officers were valid against all the partners. The only difference made to the status of these corporations by the Bank Act of 1833 was that they were henceforth free to draw bills on London on demand and for sums of less than £50. The real substantive change was that after 1833 a series of banks—which were legally nothing but common law partnerships, though known as ' joint-stock banks ', since they had many partners—opened for business in London, in consequence of the failure of the Bank of England to enforce the view that *any* banking partnership with more than six partners, and not merely

[1] P. P. 1843, vol. lii.

a banking partnership with more than six partners *and issuing notes*, was an infringement of its monopoly.[1] Between 1824 and 1840 five banks—the London and Westminster, the London Joint Stock Bank, the Union Bank, the London and County, and the Commercial Bank—set up in business, unprotected by the meagre clauses of the Act of 1826 and faced by the fierce opposition of the Bank of England and the Clearing Bankers.

The evidence given before the Bank Charter Committee on the subject of joint-stock banking was, as might have been expected, mainly of an unfavourable character, though in some cases the opposition was primarily based upon the undesirability of erecting new banks *of issue* within the sixty-five-mile radius. Jeremiah Harman of the Bank of England led the attack: S. J. Loyd thought that ' Joint Stock Banks are deficient in every thing requisite for the banking business except extended responsibility; the banking business requires peculiarly persons attentive to all its details, constantly, daily and hourly watchful of every transaction, much more than mercantile or trading business. It also requires immediate, prompt decisions upon circumstances when they arise, in many cases a decision that does not admit of delay for consultation; it also requires a discretion to be exercised with reference to the special circumstances of each case. Joint Stock Banks being of course obliged to act through agents and not by a principal, and therefore under the restraint of general rules, cannot be guided by so nice a reference to degrees of difference in the character or responsibility of parties; nor can they undertake to regulate the assistance to be granted to concerns under temporary embarrassment by so accurate a reference to the circumstances, favourable or unfavourable, of each case.'[2] Still, he thought their competition would ' diminish the number of private bankers considerably ' and leave the private banking business in

[1] The discovery that a common law partnership of more than six persons engaged in banking without issuing notes was not an infringement of the Bank of England's monopoly was due to Thomas Joplin (1797-1847) of the Provincial Bank of Ireland and the National and Provincial Bank of England; *v.* his *Essay on Banking*, 1822, p. 42. Joplin's view was upheld by the law officers of the Crown; and, as already mentioned above (p. xlii), a declaratory statement was inserted in the Bank Act of 1833.

[2] Q. 3306.

weaker hands: ' those who carry on their business from an attachment to old concerns, and feelings of that description, and who, from their circumstances, are independent of the profits of business ' would be inclined to give up.[1] Samuel Gurney, Thomas Attwood, and Henry Burgess all united in attacking the new banks—the latter, of course, as official spokesman for the country bankers, thinking them ' injurious in every respect '. Only Vincent Stuckey took up a philosophical attitude: he was in favour of limited liability and thought that ' chartered banks, with a paid-up capital, and limited responsibility of partners, would, in the course of years, bring us to a sound system of banking '.

The Government's abortive plans of 1833, so far as they concerned joint-stock banks, were based on the principle of establishing ' Chartered Banks ' both inside and outside the sixty-five-mile radius; banks which desired to issue notes *outside* the sixty-five-mile radius to have paid up one-half of their capital and to be deprived of the privilege of limited liability; non-issuing banks, within and without the sixty-five-mile radius, were to enjoy the privilege of limited liability and needed to have paid up only one-quarter of their capital; though the Government was to have the right to determine whether the amount of subscribed capital were sufficient, in view of the place where the bank was to be situated. The opposition of the country bankers having killed these proposals, the reform of joint-stock banking was left to await the Reports of the Secret Committee on Joint Stock Banks, which was, in spite of the almost universal opposition to his views expressed by subsequent speakers in the debate, set up as a consequence of Clay's motion of 1836. The Committee was reappointed in 1837 and in 1838, and nothing very positive resulted beyond the collection of a vast mass of evidence. Yet the First Report[2] is interesting for the clearness with which it states the view that ' a principle of competition exists which leads to the extinction of all Private Banks, and to their conversion into Banking Companies ', and for the clear exposition of the gaps in the then existing legislation.

Between the issue of the various Reports of this Committee

[1] Q. 3269.

[2] *V. infra*, vol. ii, pp. 219 *et seq.*

and the passage of the Joint Stock Banking Act of 1844, some minor changes were effected in the state of the law; on the recommendation of the Committee itself legislation was passed in 1838[1] by which a company might sue, or be sued by, any of its members, thus overturning the common law position that 'if the same individual was a member of two partnerships, they could not go to law against each other'[2]; and the position of companies with members of the clergy as partners was also regularized.[3] The Bank Act of 1844 (Section XXVI) allowed banking companies within the sixty-five-mile radius to 'draw or endorse Bills of Exchange, not being payable to Bearer on Demand', thus ending a long conflict between the Bank of England and the Westminster and other London banks. But the Act[4] 7 & 8 Vict. c. 113 was the first serious attempt to regulate the whole organization of joint-stock banks: providing in essence that no future banking company could operate without Letters Patent granted after petition heard by the Committee of the Privy Council for Trade and Plantations. No company was to have less than £100,000 of capital; no advances were to be made on the security of its own shares; the assets and liabilities were to be published at least once a month; the accounts were to be audited annually by two auditors chosen by the shareholders and not directors of the company; no share was to be of less value than £100; and the company was not to commence business until all the shares had been taken up and half the value of each share had been paid up. The shareholder remained liable to the full for the debts of the company.

The Act *directly* applied only to new companies, but by Section XLV of the Act pre-existing companies might elect to be incorporated under the Act, on condition of conforming to its stipulations. Since the terms of the new Act were much more stringent than those of previous legislation, this was an offer not likely to be taken advantage of to any great extent; but the Act *also*, by Section XLVIII, assimilated the position of banking companies within the sixty-five-mile radius to those governed by the Act of

[1] 1 & 2 Vict. c. 96, continued by 3 & 4 Vict. c. 111.
[2] *Macleod on Banking*, ii, p. 331.
[3] *Op. cit.*, p. 332. The Act was 4 & 5 Vict. c. 14.
[4] *V. infra*, vol. ii, p. 229.

1826, so far as suing and being sued in the name of a public officer of such ' co-partnership ' was concerned. There were henceforward four classes of banking companies: (1) those under the Act of 1826, (2) those under the Act of 1844, (3) those under neither of the Acts, and (4) those which were re-chartered under Section XLV of the Act.

Although, of course, the majority of banking companies did not come under the Act, it was unfortunate for the advocates of legislative control that one of the worst banking scandals of the 1857 crisis, the Royal British Bank,[1] concerned a bank which was so registered. The advocates of limited liability had never been contented with the situation, and the less so since the principle of limited liability had been conceded to companies generally in 1856. The advocates of amendments to the legislation of 1844 were met by the criticism that the events of 1857 had shown clearly that it was not by paragraphs in Acts of Parliament but by sound banking principles that the safety of banks was achieved. This was the keynote of the leading articles of the *Economist* in 1857, when amending legislation was introduced. ' The ingenuity of the law officers of the Crown; experience as elicited by the Banking Committees of both Houses of Parliament; the administrative and constructive ability of Sir Robert Peel—seem all to have been exhausted in the framing of this Act. Yet, alas for legislative contrivance in matters of trade, its chief, almost its only fruit (except the crop of banks established during the last two years), was the Royal British Bank.' [2] The Act of 1857 [3] swept away the Act of 1844 altogether; provided that companies coming under the former Act were to register under the new one; and incorporated the provisions of the Companies Acts, 1856,

[1] *V. Banker's Magazine*, 1857, pp. 374, 669, 733; for other cases arising in connexion, pp. 599, 603, 728.

[2] *Economist*, 1857, p. 59. The question of auditors particularly aroused its scorn: ' There is one pretended precaution which above all others has been a fruitful source of deception, and which we trust in any bill that may be brought before Parliament in reference to Joint Stock Banks will be carefully eschewed: we allude to the appointment of auditors. We have often endeavoured to show that particularly in the case of banks, the duties of such officers are a mere mockery and delusion.' (1857, p. 502.)

[3] *V. infra*, vol. ii, p. 251. For the motive leading to change, *v.* Lowe's speech, *House of Commons Debates*, vol. cxlvi (series 3), cols. 194 *et seq.*

1857, with its own, with the very important exception, however, that banking companies could not benefit from the privilege of limited liability. Banking companies not, *ipso facto*, coming within the terms of the Act might register thereunder with the assent of a majority of their shareholders (Section VI).

The question of limited liability still remained to be solved. In the motions and debates which the question evoked,[1] the line of argument pursued differed very little from that laid down twenty years before by Mr. Clay: on the one hand, the supporters of limited liability laying stress on the deterrent effect which a provision such as unlimited liability must have on desirable parties becoming shareholders, on the encouragement to rediscounting on the strength of the unlimited liability of shareholders,[2] and on the painful results when an unlimited bank did fail. The main card in the hands of the opposition was that it was impossible to apply a limitation of liability to the note issues of a bank, since, in fact, the note-holder was often not free to choose whether or not he would take a note, whereas the depositor could change his bank if he liked. The technical financial press was somewhat divided in tone: the *Banker's Magazine* was, on the whole, doubtful of the experiment.

'To combine perfect security to the public with the principle of limited liability to the shareholders in banking, may be impossible, but where the liability is the widest, there as a rule, the public will—all things else being equal—be certain to give the preference. Although, therefore, the class of joint stock money dealing houses which, under Mr. Headlam's bill, should it pass into a law, will be sure to spring up in vast numbers, may in some exceptional cases supply a want, and tend still further to develop the banking capabilities of the country, the chances are adverse to their attaining to any large measure of success, either in the amount of business or the extent of profit. That the experiment should be made seems desirable especially if it can be done without any great risk, inasmuch as it will settle a question about which some of the highest authorities in monetary circles entertain the most directly opposite

[1] *V.* discussion on Headlam's Bill, *House of Commons Debates*, vol. cxlviii (series 3), cols. 1169 *et seq.*; vol. cl (series 3), cols. 534 *et seq.*

[2] The *Economist* supported limited liability on the ground that thereby 'the credit of a bank would be determined by its capital and its known management alone. Bills, if offered for rediscount, would be examined and dealt with upon their individual and respective merits.' (1858, p. 531.)

opinions. But that any joint stock bank which, under the existing law, is enjoying a safe and profitable business, will desire to exchange their unlimited for a limited liability, looking at the price they may have to pay for the doubtful advantage, is more than improbable.' [1]

For another twenty years the contention of the paper was to prove right; in spite of the permissive powers contained in the Act of 1858,[2] till 1879 a large part of the banking of the country was still carried on on the basis of unlimited liability.[3] Meanwhile the Companies Act of 1862 reduced the then existing statute law to something approaching coherency.[4]

Unlimited liability in joint-stock banking was eventually killed by the failure of the City of Glasgow Bank in 1878. The enormous liability of the Bank on acceptances which were rediscounted in the London market reinforced the objections voiced at the beginning of 1875 by practical bankers themselves against this form of credit extension,[5] though, of course, in the case of the City of Glasgow Bank the bills so accepted were mere accommodation paper. The *causes* which led to the failure of the Glasgow Bank and the methods by which the Directors tried to put off the evil day can be paralleled from the records of bank failures in both the 1847 and 1857 crises; what produced a change was the magnitude of the losses which had to be borne by the unfortunate shareholders, liable to make good all the liabilities of the Bank, which involved their meeting a first call of £500 for every £100 of stock held, and a second call of £2,250 per £100 of stock. The total holding of stock in the hands of the public was £840,000;

[1] *Banker's Magazine*, 1858, p. 213. One of the reasons for favouring a change was that the new Discount Companies did the same work as banks and *were* allowed limited liability; *op. cit.*, p. 210.

[2] *V. infra*, vol. ii, p. 257.

[3] A Parliamentary Paper (C. 2275 of 1878–9: P. P. vol. lxv) shows that ' there were registered under the Companies Acts 1862–7 and 1879 and believed to be still in existence ':

	Number of Companies.	*Nominal Capital.*	*Paid-up Capital.*	*Number of Shareholders.*
Limited banks*	80	£Mn. 76·787	£Mn. 19·276	38,818
Unlimited banks	53	,, 66·806	,, 22·675	51,601

* Since this includes many colonial and foreign banks, the statement in the text is almost too weak.

[4] *V. infra*, vol. ii, p. 260.

[5] *V. infra*, vol. ii, p. 263.

and the holders of £750,000 of this amount 'were absolutely ruined'.[1]

The natural consequence was a general fall in the value of shares carrying an unlimited liability, and the passage of legislation[2] permitting the unlimited companies to re-register under the Companies Acts as limited companies, and limited companies to register under the new legislation, the intention being to create a new kind of liability on shares, that is 'Reserved Liability', representing the difference between the nominal and the actual paid-up amount of a share, the difference being available only in the case of the company being wound up. In order to make the Act available to unlimited companies whose shares were fully paid up, and who yet desired to have some reserve liability available in case of winding up, such companies were to be able to increase the nominal amount of their capital, the increase not being capable of being called, except in the case of winding up.[3]

Surveying the development of English commercial banking since 1836, it will be noted that, apart from the influence of legislation upon the question of note issue, it has throughout remained relatively immune from interference by the law.[4] Economic forces have been enabled to work themselves out without overmuch deflection from the action of positive law. Where law has impinged on the development of banking, its action has not always worked in the direction of producing the best results. The provisions of the Bank Act of 1844 worked against the association of issuing with non-issuing joint-stock banks until the power to issue notes became relatively unimportant; the law of unlimited liability encouraged, rather than checked, the reckless use of the facilities afforded by the London discount market. Where the law might have assisted to strengthen the banking situation, as it might have done by insisting upon adequate publicity, it acted

[1] The circumstances are fully examined in A. S. Michie's edition of *Gilbart on Banking*.

[2] *V. infra*, vol. ii, pp. 300 *et seq.*

[3] In recent years the tendency has been for the larger banks, in issuing fresh capital, to issue only fully paid-up shares without any reserve liability—a striking tribute to the relative unpopularity of shares carrying a heavy reserve liability.

[4] The Joint Stock Bank Act of 1844 seems to be the main reason for the remarkable check to the creation of new joint-stock banks between 1845 and 1860.

tardily and inadequately, with the result that British banking statistics are to this day pitiably deficient.[1]

The characteristic feature, economically speaking, of British banking in the three-quarters of a century before the war is the gradual elimination of the private banker and the growing size of the banking unit. These are two aspects of the same general phenomenon, of which decentralized operation, or branch banking, is the third. Given competition on the one hand, a growing population and improving economic conditions on the other, all three are inevitable. For joint-stock banking, especially with limited liability, has the immense advantage of being able to raise capital more easily than the private partnership; decentralized operation has the merit of enabling the banker to spread his risks and to compensate, within the limits of his own bank, the deficit in resources of one district with the excess of resources of another. These advantages will tend to increase with every increase in the scale and area of operation. The result will be that every bank will expand outwards from its original centre of operation: banks that do not expand will suffer relatively to those that do; and, in the end, when the centrifugal forces have pushed the more enterprising banks to the limits of each other's territory, the simplest methods of expansion are to absorb banks that are not

[1] ' Having required the publication of their Issues from all Banks to which the privilege of Issue is continued,' said Peel in 1844, ' I do not propose to carry further the demand for publicity. I do not wish to pry into the affairs of each Bank, and above all I deprecate the taking of delusive securities against mismanagement and abuse. The public will hereafter know the names of the persons by whom the Banking business is to be conducted, and the public must rely on their own caution and discretion as a security against being injured or defrauded. It has been frequently proposed to require from each bank a periodical publication of its liabilities, its assets and the state of its transactions generally. But I have seen no form of account which would be at all satisfactory—no form of account which might not be rendered by a bank on the very verge of insolvency, if there were the intention to conceal a desperate state of affairs. The return, for instance, of " overdrawn accounts " might lead to very erroneous inferences as to the condition of a bank making such a return. A large amount of overdrawn accounts might in one case be indicative of gross mismanagement. It might in another case be perfectly compatible with the security of a bank, acting on the Scotch principle, and making advances at interest to customers in whom the bank had entire confidence.' (*House of Commons Debates*, vol. lxxiv (series 3), 6th May 1844, col. 746.)

expanding and to fuse with banks which otherwise would invade the home territory of the other. The limit to the expansive movement of each bank is such an organization as will represent the maximum degree of inter-local compensation of risks and resources: the limit to the expansion of all the banks taken together will be given, in so far as they are guided by calculations of pure profit and loss, by the general growth of the economic organism in which they are operating. But competition may easily force expansion beyond this point, both as regards any single bank or all banks taken together. The ultimate consequences of the forces impelling expansion were not realized till the post-war period,[1] but the same general forces have always been at work.

Given the general expansion of the joint-stock banking system, it was inevitable that the antagonistic attitude of the older organizations should have to give way. The opposition of the Bank of England to joint-stock banks[2] had never comprehended those banks which issued its notes instead of their own. Indeed, it actually agreed to discount their paper at a fixed rate of discount. In the long run, it could not afford to refuse deposit accounts to the joint-stock banks, since, after all, a Central Bank must possess resources if it is to be in a position to exercise any influence at all, and the resources available were to a growing extent those of the joint-stock banks. From the standpoint of the joint-stock banks, of course, a 'Drawing Account' at the Bank of England meant the possibility of tapping the Bank's reserve in periods of stress, but the balance of power really lay with the joint-stock banks. They could always drive the brokers into the Bank at a moment of crisis, and thus get gold or notes out of the Banking Department; and, in the end, if the Bank wanted to avoid disaster, it was in any case bound to help solvent banks. By holding their whole reserve at all times in the shape of Bank notes, they would have been just as safe as if they had held a deposit in the Banking Department; and yet the Bank,

[1] *V. infra*, vol. ii, p. 323, for the Report of the Committee on Bank Amalgamations.

[2] *V. infra*, vol. ii, p. 102, and J. W. Gilbart's evidence before the Committee on Banks of Issue, 1841, Q. 1307, as to conditions under which the Bank, having originally refused an account to the London and Westminster Bank, later agreed to open one.

under the peculiar conditions of the Bank Act of 1844, would not have benefited in the least by all the gold which the joint-stock banks would have had to pay into the Issue Department in return for the notes which they took out. By 1866 the joint-stock banks appear to have been fully conscious of their power, if the old story is true that at the height of the crisis ' one of the representatives of the joint-stock banks is reputed to have said plainly, addressing the Bank's representative, " I can draw a couple of cheques to-morrow morning which will shut you up at once " '.[1] By 1890 the Bank was actively co-operating with the joint-stock banks in the formation of the guarantee fund necessary to save the Barings from disaster.[2]

§ X

The outbreak of the war of 1914–18 was accompanied by a financial crisis. The first signs of it are noticeable in the Bank return issued on Wednesday, 29th July 1914, when the Bank rate was still 3 per cent. In the week ending on that day, the Bank Reserve had fallen £2,420,000; the bullion in the Bank had fallen £2,000,000 ; and, after many weeks of continuous inflows of gold from abroad, £820,000 had gone abroad; Other Deposits and Other Securities had risen by £12,233,000 and £13,674,000 respectively, whilst the note circulation had risen by £390,000. The inference is clear that the banks were already calling in funds from the bill market and that the brokers were relying on the Bank to help them out. On Thursday, 30th July, the real pressure began: Bank rate rose to 4 per cent. On Friday, 31st July, the day of the German ultimatum to Russia, the Stock Exchange was closed and Bank rate was raised to 8 per cent. On Saturday, 1st August, Bank rate was raised to 10 per cent. The next day, Sunday, 2nd August, the Bank holiday was extended to Friday, 7th August. When on Friday, 7th August, the banks reopened for business, the Bank had obtained the assent of the Government

[1] Michie, *op. cit.*, vol. ii, p. 354, quoting from Patterson's *Science of Finance*, p. 287.

[2] In the same way persistence in the refusal to admit the joint-stock banks to the Clearing House (the rule of exclusion actually broke down in 1854) would simply have led in the long run to the creation of a new Clearing House, which, as the new banks gained in strength, would have absorbed an ever-growing proportion of the total clearings of the country.

to ' suspend ' the Bank Act, an ' emergency currency ' was available to meet any panic-demand for money—there was no such demand—and the banks were protected, in addition, by moratoria. The day before the banks reopened, Bank rate was reduced to 6 per cent. The ' crisis ' was over, and the Government and the Bank could turn their attention to the problems presented by the frozen state of the Discount Market and the plight of the Accepting Houses. When the Bank return was issued on 7th August it showed movements of enormous proportions; since the only day on which business had been conducted was the previous Saturday, the Return measures the pressure since the previous Wednesday. The bullion had fallen by over £10½ millions and gold to the extent of £2,300,000 went abroad; the Reserve had fallen by nearly £17 millions (£16,908,000). The Other Securities had risen by £18,044,000, but the Other Deposits by only £2,330,000—in other words, of the additional amounts borrowed, the greater part had been taken out of the Bank; and the ' normal ' phenomenon of a crisis, a coincident rise in Other Securities and Other Deposits, was not this time present. Part of the outflow of cash from the Bank was due to the demand for currency at the beginning of the holiday period. Much the greater part represents a movement by the banks to hold additional notes and a refusal on their part to give their customers gold, so that these were, in their turn, driven to demand gold from the Bank.

On the basis of the ' emergency currency '—sanctioned by the Currency and Bank Notes Acts[1]—the greater part of the subsequent history of the financial aspect of the war was to be built up. *Some* legislation was no doubt required, since the Bank of England had no legal right to issue £1 and 10*s*. notes; but it would have been in the historic tradition to have given the Bank the power to issue these notes, and this, together with the suspension of the Bank Act,[2] would have placed the Bank in a position to meet the emergency demand, had it actually manifested itself. From the very beginning of the war, however, the idea of

[1] *V. infra*, vol. ii, pp. 320–322.

[2] On 1st August 1914 the Bank had approached the Government in terms closely following precedent, and had obtained in reply the normal

economizing the use of gold circulation played a part in the plans of the Government. Still, this does not explain why the Government thought it desirable that a new note issue, issued upon the credit of the nation, instead of upon the credit of the Bank, should be put out—especially as at the beginning of the war there was apparently no thought of making the notes inconvertible. On the contrary, the new notes were expressly declared to be convertible into gold during office hours at the Bank of England. It was only gradually that the new legislation came to be used as an engine of inflation, and it is even now doubtful whether at any time during the war the responsible authorities were fully aware of what they were doing. The original Treasury Minute of 6th August 1914,[1] ' as to the issue of Currency Notes ', provided that the notes, when issued to banks and bankers, were to be regarded as advances by the Treasury to the institution in question, ' bearing interest from day to day at the current Bank Rate '; and Currency Notes were only to be issued to bankers. Under these conditions it was reasonable to suppose that banks would not hold notes a day longer than was necessary. But by 20th August the whole situation altered. On that day a new Treasury Minute[2] provided that, in addition to the methods of issue contemplated in the original Minute of 6th August 1914, Currency Notes ' shall be issued to any person upon application through the Bank of England on payment of the face value of the notes required, the amount paid being carried ' to the credit of a special account, the Currency Note Redemption Account. It now became possible to ' buy ' Currency Notes by transferring to the Currency Note

assurance that if, in the circumstances, the fiduciary limit were exceeded, the Government would protect the Bank by obtaining Parliamentary sanction. Section III of the Currency and Bank Notes Act, passed on 6th August, indemnified the Bank of England and any Scottish or Irish Bank of Issue against any liability in respect of illegal issues made since 1st August, and further provided that, subject to Treasury sanction, such Banks might exceed any limits fixed by law (*v. infra*, vol. ii, p. 321). The correspondence between the Government and the Bank will be found reprinted in Kirkaldy, *British Finance*, 1914 *to* 1921, pp. 3–4, and *Economic Journal*, vol. xxv, pp. 565 *et seq.* On 7th and 8th August, after the passing of the Currency and Bank Notes Act, there was a technical over-issue of £3,043,000.

[1] *Manual of Emergency Legislation* (*Financial Edition*), *August 1914 to 4th June 1915*, p. 5.

[2] *Op. cit.*, p. 9.

Account a balance at the Bank of England—which the Government might borrow against any security it might like to offer[1]; and the way was open, since no limit was fixed to the total amount which might be issued in this manner, to inflationary war finance. The rise of prices associated with inflation would always appear to justify any given increase in the volume of currency, and if the increase in the volume of currency threatened to denude the Bank of England of gold—for the total note issue, that of the Bank and that of the Government alike, was convertible into gold on demand—the danger could be very materially reduced by making it an offence under the Defence of the Realm Code to export gold without a licence, or ' to melt down, break up, or use otherwise than as currency any gold coin which is for the time being current in the United Kingdom '. Patriotism and convenience alike made the population willing to *use* paper money; the law made it useless for any one not willing to be a law-breaker to get gold, and interfered quickly enough with the evilly disposed who desired to make a profit by exploiting the undoubted statutory right to obtain gold from the Bank. The legal fiction was maintained that the note was convertible; actually it was inconvertible until April 1925, for, after the war itself was over, the Gold and Silver Export Control Act continued the prohibition on the export of gold and silver without Governmental sanction originally enforced by the Defence of the Realm Code.

The situation thus created is a familiar one in the annals of currency disorganization—the pound sterling had ceased to be a certain definite weight of gold, which could be melted or exported at the will of the holder, and had become an inconvertible paper instrument, actually exchangeable inside the country at its face value in such gold coin as was still in circulation (by 1918, however, gold coin had for all practical purposes ceased to circulate), and worth less than its nominal gold equivalent in gold abroad. During the actual conduct of hostilities and for some

[1] This possibility was pointed out by Mr. J. M. Keynes as early as September 1914 (*Economic Journal*, vol. xxiv, p. 481): ' There is nothing to prevent the Treasury from making use of this account to fill up a temporary deficit in the Exchequer Balances, whether by issuing Treasury Bills to the Currency Note Redemption Account, or without this or a similar formality.'

months thereafter, the artificial support given to the dollar-sterling exchange prevented this fact from being generally realized; the ' unpegging ' of the exchange early in 1919 made it obvious to the world, and made the reform of British currency conditions a matter of urgent political and social importance.

From the standpoint of the Central Bank, the major questions were whether the two note issues should be unified and whether the opportunity would be taken to introduce changes in the organization and powers of the Bank of England in connexion therewith; and, lastly, and in the end most importantly, whether the pound sterling should again be linked up with gold. These were the issues submitted to the body which, from the name of its chairman, was to become known as the Cunliffe Committee. The first Report of the Committee,[1] dated 15th August 1918, before the end of the war was in sight, was almost necessarily confined to the laying down of general principles. The general tenor of the Report is conservative, in spite of the fact that two important permanent changes were suggested. The restoration of the Gold Standard and the unification of the note issues were to be regarded as the ultimate aims of British policy, and a restoration of the Gold Standard was impossible without a limitation of the issue of uncovered notes, which should be enforced ' as soon as practicable '. But whilst the currency should be convertible into gold for export purposes, it was not desirable that gold coin should be allowed to circulate, though legislation on the subject was not required, since the public had become fully accustomed to the use of paper notes; ' informal action on the part of the banks may be expected to accomplish all that is required. If necessary, however, the circulation of gold coin could be prevented ' by making the notes ' convertible at the discretion of the Bank of England either into such coin or into bar gold, though for our own part we should prefer to maintain the right of the note-holder to receive payment in gold coin and to trust to the informal steps suggested above to prevent gold from flowing into internal circulation '. This somewhat illogical attitude was subsequently to be rejected. Again, whilst the Committee was in favour of incorporating into the permanent legislation dealing

[1] *V. infra*, vol. ii, p. 334.

with the Bank the power to suspend the Bank Act contained in the Currency and Bank Notes Act, it was not prepared to reject the rule of a fixed, fiduciary issue in favour of a system of proportional reserve, such as had been favoured by the framers of most Central Bank constitutions.

The second Report,[1] which was issued in December 1919, was destined to have important consequences. It urged an immediate adoption of the suggestion, made in the First Report, that a maximum limit should be placed upon the issue of uncovered Treasury Notes, a recommendation which was given effect to by the Treasury Minute of 15th December 1919.[2] This imposed what was popularly known as the 'Cunliffe Limit'; and, coming at a time when prices had been rising and an exaggerated industrial boom was in process (co-effects in the main of a mistaken currency policy), it was the cause of the check to the upward trend of prices and of industrial expansion which marked the second half of the year 1920.

Between the end of 1919 and the beginning of 1925 the value of the pound sterling in terms of gold gradually but by no means continuously increased. The Cunliffe Limit simply set an upper limit to the total volume of currency notes which could be issued; the gold value of paper currency depended not only upon the volume of British currency and upon the British price-level but upon the movements contemporaneously taking place in American dollar prices. So long as the Gold and Silver Export Control Act was on the statute-book, whatever the gold value of the currency might be, gold could be prevented from moving out; though if by limitation of amount the value of the paper pound rose above $\$4.86\frac{2}{3}$, there was nothing in the Act to prevent gold from coming in. The rise in the value of the pound sterling, which was assisted from the beginning of 1925 by American anticipation that the gold standard would be restored at the old parity with the American dollar, coincided with the necessity either of allowing the Gold and Silver Export Control Act to lapse (since it had originally been passed for a period of five years only) or of renewing it for a further term of years. A variety of choices lay before the Government: (1) it could have restored the gold standard

[1] *V. infra*, vol ii, p. 366. [2] *V. infra*, vol. ii, p. 371.

at the old parity and have allowd the Act to lapse completely; (2) it could have re-enacted the Act and have continued to allow sterling 'to find its own level', subject only to the indirect effects exerted by the Cunliffe Limit; (3) alternatively, it could have re-enacted the Act, and pursued the policy of keeping sterling from falling below the old parity (*de facto* as compared with *de jure* stabilization); (4) it could have introduced *de facto* or *de jure* stabilization at a parity lower than the pre-war parity. The opponents of Government policy (including those who never desired the restoration of the gold standard in *any* form) would have preferred any of the last three policies to the first. Scientific discussion mainly turned on the question whether, taking the actual levels of prices in Great Britain and the United States, stabilization at the old parity would not be equivalent to giving the pound too high a gold value. The logical outcome of a proof that stabilization at the old parity would be to over-value the pound should have been a demand for devaluation—the choice of a lower gold parity —but this was never seriously discussed. The practical issue lay between restoring the gold standard at the old parity, or not restoring it at all for the time being. In April 1925 the Government chose the first alternative; the publicly stated grounds for the action it then took being contained in the *Report of the Committee on the Currency and Bank of England Note Issues*.[1] This Committee had been appointed in June 1924, 'to consider whether the time has now come to amalgamate the Treasury Note Issue with the Bank of England Note Issue, and, if so, on what terms and conditions the amalgamation should be carried out'. Instead of dealing with this highly technical matter in its Report, the Committee declared for an *early* return to the gold standard and the *immediate* restoration of a free market for gold in this country. These recommendations were given effect to by the passage of the Gold Standard Act, 1925[2]; the grant of a general licence to the Bank of England to export, and an intimation by the Chancellor of the Exchequer that the Gold Control Act of 1920 would be allowed to lapse at the end of 1925.

The Gold Standard Act of 1925 introduced a system of currency now usually known as the 'Gold Bullion Standard', since

[1] *V. infra*, vol. ii, p. 372. [2] *V. infra*, vol. ii, p. 383.

the British paper currency is convertible into gold bars of a minimum weight of 400 fine ounces, thus making the minimum tender of legal money, in return for which gold bars can be obtained, £1,699 11*s*. 8*d*. The right to demand gold coin from the Bank of England is abolished: the right to sell gold to the Bank is retained, and the legal status of existing gold coin is in no way interfered with.[1]

For the next two years further agitation was mainly to centre upon the question of whether or not the return to the gold standard at the old parity had added to the other economic difficulties to which the country was exposed; the terms upon which, and the date at which, amalgamation of the two note issues should take place having fallen somewhat into the background. From the beginning of 1928, however, this question began to come rapidly to the front. In certain expert circles, the possibility of a further shortage of gold, involving a fall in the long-period price-level and consequent depression of economic life, was being actively canvassed. The Genoa Conference had already, in 1920, drawn attention to the necessity of avoiding a scramble for gold and had insisted upon the necessity of co-operation among the Central Banks for the purpose of achieving a rational gold policy. The question, so far as the Bank of England was concerned, was then this: would the Bank be given a fixed fiduciary issue more than equal to the sum of the two existing uncovered issues or not? Would it be allowed to vary the fiduciary issue in the future, not only if it were required to meet the contingency of a financial panic, but also to meet the needs of an increasing population, expanding production, or falling gold output?

The Currency and Bank Notes Act, 1928, answers these questions by (1) giving the Bank a fixed fiduciary issue of rather less than the sum total of the pre-existent uncovered Bank of England and Currency Notes, but (2) couples this fixed fiduciary limit with certain permissive powers of increase for the future, the exact significance of which depends not only upon the terms of the legislation itself but also upon certain 'undertakings'[2]

[1] The legal position of the British currency under this Act is fully analysed in Chapter III of my *Return to Gold*.

[2] Sir L. Worthington-Evans on 22nd May 1928 (*House of Commons Debates*, 5th Series, vol. 217, col. 1830): 'I am authorized to say that

given by the Governor of the Bank of England as to the manner in which the Bank intends to interpret the spirit of the Act. This curious situation, which can hardly be considered legally binding in any way, arose out of the hostility to the Act when it was being discussed in Parliament. But with the passage of the Act of 1928, the seal has for the time being been put, not only on the efforts to repair the damage inflicted by the war upon the British currency standard, but also on the long effort to amend the Bank Act of 1844 which began with the Report of the House of Lords Committee in 1848.

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LONDON SCHOOL OF ECONOMICS
AND POLITICAL SCIENCE.
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the Governor of the Bank has read what I said on Second Reading. For fear that I should pledge him too much, and to be more specific, he has read what I said in columns 744 to 746 of the Official Report, and he has authorized me to say that that does represent the general intentions of the Bank. That, then, is the policy of the Bank.'

The cases in which an increase of the fiduciary issue can occur would seem, accordingly, to be three in number:

(1) An emergency such as those of 1847, 1857, and 1866.

(2) 'A new kind of emergency has become possible. Now that the foreign banks have adopted the practice of accumulating a large reserve of sterling bills, it is always possible that, owing to a change in policy upon the part of those banks, a large sum might be withdrawn in a short time by the realization of those balances. The probability is that such a measure would be avoided by co-operation amongst the central banks, as was indeed advised in the Genoa resolutions. But if the withdrawal of gold was insisted upon, it might become necessary to extend the fiduciary issue, and that would be an occasion which would justify the Governor of the Bank in asking for that expansion, and the Treasury in granting it.' (Col. 744.)

(3) 'A third category is the possible competition for gold among the Central banks. . . . Should the Bank find that, owing to a world demand for gold, credit would be unduly restricted, not as a check on speculation, but to the injury of legitimate requirements, then the Bank can request the Treasury to extend the fiduciary issue and so free gold in the hands of the Bank for further credit operations. Moreover, the principle of a fixed fiduciary issue itself necessitates some provision being made for normal growth. It was only by an accidental combination of circumstances that the Act of 1844 did not require an expansion of the fiduciary issue from time to time. . . . The provision in the Bill for increasing the fiduciary issue is not intended therefore to be a mere legislative substitute for the Crisis Letter. On the contrary, it is intended to be used, not in a crisis, but before it and to prevent undue stringency from arising from any of the causes I have mentioned.' (Col. 745.)

PART I

THE BANK OF ENGLAND BEFORE THE BANK ACT OF 1844

THE BANK CHARTER INQUIRY, 1832
REGULATION OF THE NOTE ISSUES

Evidence of JOHN HORSLEY PALMER, Esq., Governor of the Bank of England. (Tuesday, 29th May 1832)

(Parliamentary Papers, 1831–2, vol. vi.)

72. What is the principle by which in ordinary times the Bank is guided in the regulation of their issues?—The principle, with reference to the period of a full currency, and consequently a par of exchange, by which the Bank is guided in the regulation of their issues (excepting under special circumstances) is to invest and retain in securities, bearing interest, a given proportion of the deposits, and the value received for the notes in circulation, the remainder being held in coin and bullion; the proportions which seem to be desirable, under existing circumstances, may be stated at about two-thirds in securities and one-third in bullion; the circulation of the country, so far as the same may depend on the Bank, being subsequently regulated by the action of the Foreign Exchanges.

73. By the circulation of the country, do you mean the whole circulation of the country, and not the country circulation?—The whole circulation of the country.

74. When you say that as a general principle you think it desirable to have one-third of bullion in your coffers, against your circulation, you mean to include in that circulation not only your paper out, but all deposits, whether of Government or individuals?—Yes.

75. In short, all liabilities to pay on demand?—Yes.

76. And you hold the liability to pay on demand arising from a deposit, to be equivalent to a note out?—I hold it to be that sort of liability which the Bank are bound to provide for by a reserve of bullion.

77. Do you think the liability arising from the deposit to be more dangerous to the Bank as to sudden calls, or less dangerous to it than the same amount out in paper?—Less dangerous.

78. According to your description of the principle upon which the affairs of the Bank are conducted, do not the Directors of the Bank of England possess the power of regulating the whole circulation of the country?—The Bank are very desirous not to exercise any power, but to leave the Public to use the power which they possess, of returning Bank paper for bullion.

79. Would the Exchanges be corrected if the amount of currency was left wholly in the hands of the Public?—They have been principally corrected under that management.

80. Is the Bank exposed to no inconvenience, by waiting to have the correction take place in this method, in preference to itself interfering by that power to diminish the circulation in case of a fall of Exchange?—No; provided they are adequately supplied with bullion when the Exchanges are at par, and which proportion I have stated to be about one-third.

81. Does not the Bank, if it thinks proper, possess the power of extending the currency or of diminishing it, without waiting for the interference of the Public?—It has the power.

82. Would the Bank forcibly contract their issues by a sale of securities, during an unfavourable course of exchange with foreign countries, and would they forcibly extend their issues by the purchase of securities when the exchange was favourable?—I think not, except under special circumstances.

83. You mean to say that the Bank would not forcibly do that, but that it would leave it to the Public to act upon the Bank, and produce the effect at which it would arrive?—I do.

84. It appears by the Accounts before the Committee, that for the last four years the amount of securities in the hands of the Bank varied very little; do you consider it important in the management of the Bank, to keep the securities at nearly the same amount?—As nearly as the same can be managed.

85. What is the reason why you think it necessary to keep the securities at the same amount?—Because the Public are thereby enabled, without any forced action on the part of the Bank, to act for themselves in returning notes for bullion for exportation, when the exchanges are unfavourable. If the exchanges continue

favourable for any great length of time, then the influx of treasure will command an increased issue of paper, and which may derange the proportions; but it does not follow that the Bank ought, upon that account, immediately to extend its issue upon securities. When, however, it is clearly ascertained to be desirable that part of the excess of bullion so received should be returned to the Continent, then it may be necessary for the Bank to re-assume its proportion, by transferring part of the bullion into securities, still preserving the proportions of one-third and two-thirds.

86. In times of great commercial prosperity, would not the leaving to the Public the correction of a redundant currency, lead to a greater redundancy and to excessive speculation?—I think not.

87. You have stated one-third of bullion to be, in your opinion, about the proper proportion for the Bank to hold, in proportion to its liabilities; is that proportion the result of your experience in the management of the Bank?—Yes, with reference to periods of a full currency.

88. Have you any information as to whether that proportion is held, in other Banks of the world, to be the true one or nearly the true one?—No, I have not.

89. Do you consider that it is desirable for the Bank of England, under the circumstances in which it is placed, to reserve a larger deposit of bullion than it would be under ordinary circumstances of banking?—The Bank of England, under existing circumstances, appears to be called upon to retain a larger proportion of bullion than it would do, if it had merely to provide for its own circulation.

90. Will you explain what you mean by providing for its own circulation?—I mean, that provided the Bank were not liable to be called upon in the money market of London for a large supply of coin to uphold the country circulation, a less deposit of bullion would be required.

91. Must not the demand for the country circulation of gold from the Bank depend materially upon the amount of the circulation of the Bank of England, for which the country circulation have the power to demand gold?—I believe the Country Bankers are

possessed of so much property, and such securities, that I can hardly contemplate that contraction of the Bank paper in London which would deprive them of the power of obtaining the amount they might require for providing themselves with coin from the Bank.

92. Are there not circumstances which might occasion a drain upon the Bank, other than what may arise from an unfavourable state of exchange?—Certainly.

93. Would not any state of commercial panic in the country, from which a run upon the country bankers may arise, send them to you for a supply of bullion, though the Foreign Exchanges were not in apposition to induce the export of it?—Certainly.

94. Was not that to a considerable extent the case in the run upon the Bank in the year 1825?—I believe so.

95. Did not that run, which reduced your resources so low, arise from circumstances independent of the foreign export of bullion?—Yes.

96. Therefore after every precaution you had taken to keep your circulation in correspondence with the state of Foreign Exchanges, you are still liable to the other danger, of having to find bullion, not only for the wants of the country bankers, but to allay the fears and apprehensions of timid men who may wish to have in their possession more than in any emergency they may want?—Certainly; it is that circumstance that impresses me with the necessity for a larger deposit of bullion than otherwise would be requisite.

Evidence of GEORGE WARDE NORMAN, Esq., Director of the Bank of England. (Tuesday, 26th June 1832)

2390. Are you aware of the principles upon which the Bank regulate their issues?—I am aware of the principles upon which they regulate their issues at present.

2391. Will you state what these principles are?—I conceive that the principle for the regulation of Bank issues under ordinary circumstances is, at the time when the currency is full, to invest, of the whole amount received for the circulation and deposits, in

the proportion of about one-third in bullion and coin, and about two-thirds in securities bearing interest.

2392. Do the Bank of England, in regulating the amount of their paper in circulation, have reference to the state of foreign Exchanges?—The Bank, for several years, have always looked very narrowly at the state of the foreign Exchanges. Since the principle which I have just mentioned has been adopted, the plan has been, under ordinary circumstances, to let the Public act upon the Bank, rather than the Bank upon the Public. Having fixed the amount of securities and treasure at about two-thirds and one-third, the drain is allowed to go on unchecked, unless some special occasion for interference should arise. The diminution of treasure is then accompanied by an equivalent diminution of circulation and deposits.

2393. In the case of the foreign Exchanges being against this country, would the Bank take any step to counteract that issue?—I should say, under ordinary circumstances, not; there might possibly be extraordinary circumstances, in which a forcible and more rapid contraction of liabilities would be requisite.

2394. While the bullion is being drawn from the Bank, do the Bank take any measures to restrict the accommodation they give to the mercantile world?—No; they usually have contrived in that case to dispose of a portion of their exchequer bills or other securities, and this increased the fund disposable for discounts; the object is to keep the securities upon the whole at the same amount, or somewhat near the same amount, it is impossible to obtain perfect accuracy.

2395. Do the Bank, then, look at the amount of securities bearing interest in their hands, more than they do to the positive amount of bullion?—Yes, the principle is, at the commencement of a drain, that is to say, when in all probability the circulation and the treasure are about at the highest, that we should have the proportion of two-thirds and one-third; then if the securities are kept about at the same level, the reduction of the treasure must show itself in the circulation and the deposits.

2396. What general effect do you apprehend is produced upon the money market by a reduction in the amount of exchequer

bills held by the Bank and held by the Public?—It must, I apprehend, disengage a certain portion of capital previously laid out in exchequer bills, which must seek some other employment.

2397. Do not exchequer bills tend, according to their amount, to support the general paper circulation of the country, not only in the capital but in the country?—I think I hardly understand the question.

2398. You will observe that the amount of exchequer bills held by the Bank in 1818 is £26,000,000 and in 1832 it was £6,650,000, thereby reducing that species of security twenty millions; the object of the question is, to ascertain whether in your opinion that diminution has in any manner influenced the circulation of the notes of the Bank of England and also Country Banks?—I do not see why necessarily it should have influenced them; the notes returned to the Bank in payment of the exchequer bills, have been re-issued on other securities.

GOVERNMENT OF THE BANK OF ENGLAND

Evidence of JOHN HORSLEY PALMER, Esq., before the Committee of Secrecy on the Bank of England Charter, 31st May 1832.

The Rt. Hon. Lord Althorp in the Chair.

(See Parliamentary Papers, 1831–2, vol. vi.)

199. You stated in your evidence on the last day, what is the present management of the Bank of England; under whose controul is that management?—The Court of Directors.

200. Do the whole Court of Directors interfere in the management of the general concerns of the Bank?—The whole.

201. Are they all of them aware of the state of the Accounts of the Bank?—They are; there is a weekly Statement read to the Court of Directors, of the actual position of the Bank in every department, of its securities, of its bullion, and of its liabilities.

202. Are there no portion of the Directors who have a greater controul than the others?—None.

203. Is there no Committee of Secrecy among the Directors?—None; there is a Committee of Treasury, who may originate or

suggest any measure they think fit to the Court, but such measure is perfectly free and open for the determination of any part of the Court afterwards.

204. Anything that emanates from them must be determined upon by the Court?—Completely so.

205. Supposing the majority of the Directors disapprove of the system of management of the Bank, they might reverse the whole of it?—They might.

206. Are the Committee to understand that the whole of the Court confer in the management of the daily transactions of the Bank?—The Court do not sit daily; they sit weekly. The daily transactions are conducted by a committee of three, but the Governor or Deputy Governor are supposed always to be in the house, and no responsible action is taken by the Committee without reference to the Governor.

207. Do this Committee, or the Governor and Deputy Governor, take steps of considerable importance, such as the sale and purchase of Exchequer Bills, and the making of discounts, without the interference of the rest of the body?—All Bills presented by the Public for discount are presented before that daily Committee, and they determine upon the Bills so to be discounted; but if there were any considerable demand, unusual in its character, made upon the Bank, a communication would pass between that committee and the Governor, who would take such steps as he thought necessary for the purpose of bringing that extra demand before the whole Court, if required.

208. Are the Committee to understand that the Committee to which you have alluded, with the Governor and the Deputy Governor, do not transact any extraordinary business out of the ordinary routine without first consulting the rest of the Court?—Certainly.

209. Is the Committee of three, that sit daily, exclusive of the Governor and Deputy Governor?—Yes.

210. Is it not the case that certain bills or notes are not accepted by that Committee, but referred to the Court, when they sit?—There is a Wednesday's Committee for London notes, which

consists, I think, of nine or ten Directors; all London notes pass before that Committee on Wednesday.

211. In the business so transacted by the committee, do you include the purchase of bullion?—No, the bullion is always bought by the Governor, who considers that he has no power to refuse the issue of notes for gold bullion tendered to him at the Bank.

212. Does he regulate the price from time to time?—The price of gold has been fixed at £3. 17*s*. 9*d*. for the last three years. It was formerly £3. 17*s*. 6*d*.; that was deemed by the late Government to be too low, and they suggested to the Bank the propriety of £3. 17*s*. 9*d*. being the buying price. The price of silver, the Committee will be aware, is regulated by the course of the Foreign Exchanges.

213. Do you occasionally send specie abroad?—Very few occasions have occurred when the Bank have sent specie abroad, and those occasions have only been in times of an unfavourable exchange, and chiefly for the purpose of operating upon the Paris Exchange direct.

214. Are such transactions as those directed by the Court?—With the full concurrence of the Court.

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224. Can any individual of the Court of Directors originate any new measure?—He has the power to do so.

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227. You have stated, that the whole management of the concerns of the Bank depends upon the Court of Directors; if, then, any change should take place among the persons elected to the Directors in the Bank of England, might not that produce a complete change in the system of management of the Bank?—We are always liable to a different action by different individuals; every person must be responsible for his own opinions.

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231. You stated, that the Accounts of the Bank have never been laid before the Court of Proprietors; are the Court of Proprietors

aware of the system of management of the concerns of the Bank? —I presume that they must be aware of it.

232. At all events they are satisfied with it, as they do not demand the Accounts?—I suppose so.

233. Have not demands occasionally been made?—Demands have occasionally been made, but they have been rejected by such immense majorities, that there has been no possibility of entertaining the question.

234. By what means do the proprietors of Bank Stock know the system upon which the Bank conducts its affairs?—I cannot answer that question but by their supposed general knowledge.

235. Do you believe that they generally do know the system upon which the Bank is conducted?—I believe so.

236. You believe that the proprietors know the system of the management of the Bank, because you believe it to be generally known by the Public?—Yes.

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239. Can you recollect how long it is since there was any contested election of Directors for the Bank of England?—No, I cannot.

240. Has there been any within your memory?—There was one vote given at the last election, for an individual not included in the list of candidates. I do not recollect any regular canvass.

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243. Does not the whole list of candidates come to the Court of Proprietors recommended by the Court of Directors themselves? —Yes.

244. Is there not an annual change?—Eight go out and eight come in, every year.

245. And those eight that come in are generally recommended by the Court of Directors?—They are.

246. There is not, in general, any application made by individuals to be placed in the Court of Directors?—Not publicly.

247. What is your opinion of the effect of eight Directors retiring each year?—I am not aware of any particular effect being produced.

248. Are you aware of any prejudicial effect?—No.

249. Is it not the fact that the Directors of the Bank of England for many years past have thought it right not themselves to be very large holders of Bank stock?—I do not believe that any Director of the Bank of England holds more than his qualification.

250. Is it not true, that in the month of May 1816, when the Bank made a most magnificent donation to the proprietors, the Bank Directors remained just as they did before, small proprietors of stock?—I believe so.

251. Has there been any change made in the duration of time for which any officers of the Bank of England have been elected, within the last year or two?—No.

252. The Governor and Deputy Governor have each been elected for a year?—Except upon the last occasion, when I have been allowed to continue, under the particular circumstances of this inquiry.

253. In the choice of new Directors, is it not the practice of the Court to look with attention at the private character of the new Director in all points of view?—As far as I have been concerned, that has been the invariable practice.

254. If an individual was to be offered as a member of the Directors, would not the Court of Directors consider it their duty to inquire into the whole character of that individual, and would they not give him that influence which, as a body, the Court of Directors have, according to the opinion they form after their inquiries were made?—I believe so.

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260. When measures of importance are about to be taken with respect to the enlargement or contraction of the issues, are the Directors at large consulted, or are steps of that sort taken on the responsibility of a select portion of the Directors?—The Court of Directors are apprised of every transaction of that sort as it occurs.

261. Before it occurs, or afterwards?—I can hardly say before it occurs, because there may, at times, be a day or two intervening. The Governor is supposed to have the responsibility, for a few

days between the intervening Courts, of taking any measure of that nature that may be deemed desirable.

262. Practically, he and the Select Committee conduct the business of the Bank in the intervals between the sittings of the Court?—Yes, but nothing of any consequence can be acted upon without the full knowledge and concurrence of the Court of Directors; no action of any extent, that ever I was aware of, has taken place, without the Court being apprised of the principle that governed that action.

263. How is the Select Committee formed; is it by rotation, or by agreement among the Directors to attend?—It consists of the senior Directors of the Bank, who have passed the chair.

264. Then no person is on the Select Committee who has not passed the chair?—No, with the exception of the Director immediately succeeding in rotation to the Deputy Chair.

265. Does the Governor himself extend or contract the currency without communicating with the Directors?—I never knew a Governor take upon himself the responsibility of acting to any extent without the concurrence of the Court of Directors.

266. Is it unusual upon any extraordinary emergency to summon the Court specially?—Certainly not; if an emergency were to arise similar to the year 1825, the Court would be specially summoned, and they were doing so during that period.

267. With reference to some of the great principles of management which you have mentioned on the former day, such as not favouring commercial discount, and acting, in contracting your issues when the exchange is adverse, according to your definition of an adverse exchange, have those principles been recognized and discussed by the Directors at large, or are they principles only called into action by the Select Committee as the occasions have arisen?—All matters relating to management have been recognized by the Court at large.

268. After discussion?—Discussion has taken place, and the principles have been recognized.

269. Were you rightly understood, that in the event of an unfavourable Exchange for a length of time, the Court of Directors

took no measures, by contracting their issues, to amend the course of Exchange?—I mean to maintain, that the Court of Directors have taken no measures, within the last period of eighteen months or two years, for the purpose of contracting the circulation; that the contraction has been effected almost entirely by the return of notes for gold and silver.

270. How long have the Bank conducted their affairs upon this principle?—The Bank have not had the power of acting upon any fixed principle till a late period, subsequent to the year 1825.

271. Why was that?—From various circumstances that existed prior to that period; from the year 1819 to 1822, the preparation for return to cash payments under the Order of the House of Commons,—the conflicting character of the circulation of the country and London, governed as the country was by a small note circulation. So long as the Bank was liable to that internal demand, the Bank could hardly be expected to adopt any system such as I have alluded to.

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5th June 1832.

477. In answer to a question by the Committee, you are supposed to have stated it as your opinion, that the Bank of England ought to confine itself to public transactions, and the management of the currency of the country, and not to interfere in the general commercial discounts in the Metropolis; is that your opinion, or do you wish to give any explanation upon that answer?—With reference to the answers which I have given in the former examination, I am apprehensive of having been misunderstood with respect to the opinion I entertain of the functions of the Bank in London, as a bank for commercial discounts; my intention was to impress upon the Committee an opinion, that in ordinary times the leading functions of the Bank of England have been to furnish, upon a stated principle, an adequate supply of paper money convertible into coin and bullion upon demand, and to act as a bank for safe deposit of public and private money, and in so acting, that it is not deemed to be desirable to attempt to regulate the amount of issues of the Bank in London through commercial discounts, but that there are occasions and circum-

stances when the functions of the Bank as a bank for commercial discounts in the Capital have been and ever must be of the first importance to the country. The reasons which appear to me to exist against the regulation of the amount of issues through commercial discounts in London, arise from the magnitude of the deposits in the possession of the bankers of London and other individuals, seeking employment with which the Bank ought not, in my opinion, to interfere. The Bank, fixing a public rate of interest at which it may be willing to discount all approved bills of a given description, and being the only body issuing money *ad libitum*, within the sphere of the circulation of such bills, thereby fixes the *maximum* of the rate of interest during the existence of such notice, and consequently all persons having money already in existence to employ, must necessarily offer to lend it under the Bank's public rate, except in times of actual scarcity or deficiency of money currency. If the Bank were required to hold no other securities than commercial bills, they would be under the necessity of acting in common with all other parties, viz. by competition in the purchase of bills of exchange at the existing market rate of interest. It is that competition with private bankers and individuals in London which seems to me to be so objectionable; and if the plan hitherto acted upon answers the public objects, I can see no benefit in a change. In order to place that part of my opinion clearly before the Committee, which has reference to the period when the action of the Bank as a bank for commercial discounts in London is one of the greatest public importance, I beg to state that those functions of the Bank are exhibited when a scarcity of money or discredit exists in the London commercial money market. The market rate of interest will then advance to that previously fixed by the Bank as their public rate for commercial bills, which will occasion such bills to be immediately sent to the Bank for discount. The Bank *then* becomes the main support of the commerce of the country. A material difficulty exists under the present system, of affording, during the period of a scarcity of money, that quantity of issue which the commerce of the country might in such time require, viz. the limitation, by law, of the rate of interest to 5 per cent. per annum, it being evident that in the event of the Foreign

Exchanges being adverse, the Bank might not only be under the necessity of raising the rate of interest to that *maximum*, but afterwards, as the only resource left, be compelled to limit the quantity or description of bills to be tendered for discount; either of which last measures would be equally detrimental to the commerce of the country.

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551. You stated in your evidence, that you think a single establishment would be better for the management of the circulation of the country, than having notes issued by different establishments; if that be the case, do you consider that that single establishment ought to be a commercial company, independent of the Government?—I do.

552. Will you state the reason for that opinion?—Because it has the power of giving that commercial aid which I have alluded to in the explanation I have offered to-day.

553. Why would it have the power of giving commercial aid, being independent of the Government, which it would not have if it were not independent of the Government?—I imagine that a commercial bank, formed as the Bank of England is, has the power, from the constitution of its body, of offering assistance to the commercial world which no political bank could offer.

554. Do you think that if the Bank were connected with the Government, the power of granting commercial aid, in the way you have described, would be liable to abuse?—If the Bank is formed of commercial individuals, as the Bank of England now is, with a capital totally unconnected with the Government, it appears to me to answer every purpose that is desired.

555. If it was a Government bank, would it have the same facility of giving aid in cases of commercial difficulty, that a commercial body, like the Bank of England, has?—I do not think that a bank formed of political individuals, or of commissioners, would have the same general knowledge of the commercial transactions of the country, as a body formed of commercial persons.

556. You think, then, that the knowledge of individuals that apply for aid, which a commercial body possesses, is essential in order

to enable them to give commercial aid properly in times of difficulty?—I think so.

557. Do you think it is also important that that aid should be afforded by a body independent of any political connexions or considerations?—I do.

558. You have stated that it was only upon occasions of a peculiar kind that the Bank, as now constituted, should, in your opinion, afford assistance to the commercial body in general, and not for general and ordinary purposes; do you conceive it useful that an establishment for the creation and regulation of the currency should be composed of commercial individuals?—I have stated in the answer which I have presented to the Committee to-day, the reason why I consider the Bank cannot satisfactorily regulate the amount of its issues through commercial discounts in ordinary times.

559. You are understood to state, that in ordinary times the Bank does not consider itself so much a commercial agent, as an instrument for the creation of the currency?—It is certainly intimately connected with the regulation of the currency, and though it does not regulate its issues through commercial discounts, yet it is at all times able and ready, through that channel, to afford any commercial aid which may be applied for temporarily, unconnected with the peculiar state to which I have alluded, of a great scarcity of money or discredit. As a commercial body, its rate of interest, as I have endeavoured to explain, is always necessarily above the public rate of interest, still that public rate is always open to individuals, if circumstances should arise to render such applications necessary; therefore, as a commercial body, it is at all times enabled to judge of the character of the applications so made, though they should be only occasional, yet they are at times of very considerable importance to the parties making such applications, and so far beneficial.

560. Why should the rate of interest charged by the Bank be regulated upon other principles than those which regulate the interest charged by individual capitalists?—As soon as the Bank declare a public rate at which they may be willing to issue notes, being a creating body, they immediately interfere with the

employment of deposits held by the Bankers, and who are under the necessity of employing those deposits, in the first instance, at the best rate of interest they can procure, before the Bank can be expected to issue upon their notice.

561. But as the Bank of England cannot regulate the rate of interest, why should not their dealings be the same as the dealings of individuals?—Because they would then act by competition with private Bankers and other individuals.

562. What would be the evil of that competition?—The evil would be, great liability to excess. In Scotland the banking business is governed by large public bodies, and I think their action is prejudicial; I think they tend more to excess than the actions of private Bankers. Under that impression, I am of opinion that an action by the Bank in competition with private Bankers would be prejudicial, by tending to an undue reduction in the value of money.

563. Is it not desirable, for the benefit and the interest of the country, to have the rate of interest as low as possible?—Certainly; but reduction by competition, on the part of a body like the Bank, would tend to an excess, thereby raising the prices and turning the Exchange against the country, which would occasion a reaction more prejudicial in its effects than any previous benefit to be derived in a temporary reduction in the rate of interest.

564. Do you apprehend that competition in money is regulated by any other principle than competition in commodities other than money?—I think all competition by great capitalists is more prejudicial than that by a number of inferior capitalists.

565. You have stated that the great function of the Bank, as a great commercial company, is, in times of peculiar pressure, to come forward and assist the commercial world by means of discounts; has not, in those times of peculiar pressure, the Government itself frequently been forced to come forward and assist the commercial world?—I believe the Government, in 1793 or 1797, did issue exchequer bills to the Public, upon which Bank paper was advanced.

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THE BANK CHARTER ACT, 1833

(3 & 4 WILL. IV, c. 98)

An Act for giving to the Corporation of the Governor and Company of the Bank of *England* certain Privileges, for a limited Period, under certain Conditions.

(29th *August* 1833.)

'Whereas an Act was passed in the Thirty-ninth and Fortieth 'Years of the Reign of His Majesty King *George* the Third, 'intituled *An Act for establishing an Agreement with the Governor 'and Company of the Bank of* England *for advancing the Sum of 'Three Millions towards the Supply for the Service of the Year 'One thousand eight hundred*: And whereas it was by the said 'recited Act declared and enacted, that the said Governor and 'Company should be and continue a Corporation, with such 'Powers, Authorities, Emoluments, Profits, and Advantages, and 'such Privileges of exclusive Banking as are in the said recited 'Act specified, subject nevertheless to the Powers and Conditions 'of Redemption, and on the Terms in the said Act mentioned: 'And whereas an Act passed in the Seventh Year of the Reign 'of His late Majesty King *George* the Fourth, intituled *An Act 'for the better regulating Co-partnerships of certain Bankers in* 'England, *and for amending so much of an Act of the Thirty-ninth 'and Fortieth Years of the Reign of His late Majesty King* George '*the Third, intituled "An Act for establishing an Agreement with '" the Governor and Company of the Bank of* England *for advanc-'" ing the Sum of Three Millions towards the Supply of the Service '" of the Year One thousand eight hundred," as relative to the 'same*: And whereas it is expedient that certain Privileges of 'exclusive Banking should be continued to the said Governor 'and Company for a further limited Period, upon certain Con-'ditions: And whereas the said Governor and Company of the 'Bank of *England* are willing to deduct and allow to the Public, 'from the Sums now payable to the said Governor and Company 'for the Charges of Management of the Public Unredeemed 'Debt, the annual Sum herein-after mentioned, and for the 'Period in this Act specified, provided the Privilege of exclusive

'Banking specified in this Act is continued to the said Governor 'and Company for the Period specified in this Act: May it there- 'fore please Your Majesty that it may be enacted;' and be it enacted by the King's most Excellent Majesty, by and with the Advice and Consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the Authority of the same, That the said Governor and Company of the Bank of *England* shall have and enjoy such exclusive Privileges of Banking as is given by this Act, as a Body Corporate, for the Period and upon the Terms and Conditions herein-after mentioned, and subject to Termination of such exclusive Privileges at the Time and in the Manner in this Act specified.

II. And be it further enacted, That during the Continuance of the said Privileges, no Body Politic or Corporate, and no Society or Company, or Persons united or to be united in Covenants or Partnerships, exceeding Six Persons, shall make or issue in *London*, or within Sixty-five Miles thereof, any Bill of Exchange or Promissory Note, or Engagement for the Payment of Money on Demand, or upon which any Person holding the same may obtain Payment on Demand: Provided always, that nothing herein or in the said recited Act of the Seventh Year of the Reign of His late Majesty King *George* the Fourth contained shall be construed to prevent any Body Politic or Corporate, or any Society or Company, or Incorporated Company or Corporation, or Co-partnership, carrying on or transacting Banking Business at any greater Distance than Sixty-five Miles from *London*, and not having any House of Business or Establishment as Bankers in *London*, or within Sixty-five Miles thereof, (except as herein-after mentioned,) to make and issue their Bills and Notes, payable on Demand or otherwise, at the Place at which the same shall be issued, being more than Sixty-five Miles from *London*, and also in *London*, and to have an Agent or Agents in *London*, or at any other Place at which such Bills or Notes shall be made payable for the Purpose of Payment only, but no such Bill or Note shall be for any Sum less than Five Pounds, or be re-issued in *London*, or within Sixty-five Miles thereof.

III. 'And whereas the intention of this Act is, that the Governor

' and Company of the Bank of *England* should, during the Period ' stated in this Act (subject nevertheless to such Redemption as ' is described in this Act), continue to hold and enjoy all the ' exclusive Privileges of Banking given by the said recited Act of ' the Thirty-ninth and Fortieth Years of the Reign of His Majesty ' King *George* the Third aforesaid, as regulated by the said recited ' Act of the Seventh Year of His late Majesty King *George* the ' Fourth, or any prior or subsequent Act or Acts of Parliament, ' but no other or further exclusive Privilege of Banking: And ' whereas Doubts have arisen as to the Construction of the said ' Acts, and as to the Extent of such exclusive Privilege; and it is ' expedient that all such Doubts should be removed,' be it therefore declared and enacted, That any Body Politic or Corporate, or Society, or Company, or Partnership, although consisting of more than Six Persons, may carry on the Trade or Business of Banking in *London*, or within Sixty-five Miles thereof, provided that such Body Politic or Corporate, or Society, or Company, or Partnership do not borrow, owe, or take up in *England* any Sum or Sums of Money on their Bills or Notes payable on Demand, or at any less Time than Six Months from the borrowing thereof, during the Continuance of the Privileges granted by this Act to the said Governor and Company of the Bank of *England*.

IV. Provided always, and be it further enacted, That from and after the First Day of *August* One thousand eight hundred and thirty-four all Promissory Notes payable on Demand of the Governor and Company of the Bank of *England* which shall be issued at any Place in that Part of the United Kingdom called *England* out of *London*, where the Trade and Business of Banking shall be carried on for and on behalf of the said Governor and Company of the Bank of *England*, shall be made payable at the Place where such Promissory Note shall be issued; and it shall not be lawful for the said Governor and Company, or any Committee, Agent, Cashier, Officer, or Servant of the said Governor and Company, to issue, at any such Place out of *London*, any Promissory Note payable on Demand which shall not be made payable at the Place where the same shall be issued, any thing in the said recited Act of the Seventh Year aforesaid to the contrary notwithstanding.

V. And be it further enacted, That upon One Year's Notice given within Six Months after the Expiration of Ten Years from the First Day of *August* One thousand eight hundred and thirty-four, and upon Repayment by Parliament to the said Governor and Company, or their Successors, of all Principal Money, Interest, or Annuities which may be due from the Public to the said Governor and Company at the Time of the Expiration of such Notice, in like Manner as is herein-after stipulated and provided, in the Event of such Notice being deferred until after the First Day of *August* One thousand eight hundred and fifty-five, the said exclusive Privileges of Banking granted by this Act shall cease and determine at the Expiration of such Year's Notice; and any Vote or Resolution of the House of Commons, signified by the Speaker of the said House in Writing, and delivered at the Public Office of the said Governor and Company, or their Successors, shall be deemed and adjudged to be a sufficient Notice.

VI. And be it further enacted, That from and after the First Day of *August* One thousand eight hundred and thirty-four, unless and until Parliament shall otherwise direct, a Tender of a Note or Notes of the Governor and Company of the Bank of *England*, expressed to be payable to Bearer on Demand, shall be a legal Tender, to the Amount expressed in such Note or Notes, and shall be taken to be valid as a Tender to such Amount for all Sums above Five Pounds on all Occasions on which any Tender of Money may be legally made, so long as the Bank of *England* shall continue to pay on Demand their said Notes in legal Coin: Provided always, that no such Note or Notes shall be deemed a legal Tender of Payment by the Governor and Company of the Bank of *England*, or any Branch Bank of the said Governor and Company; but the said Governor and Company are not to become liable or be required to pay and satisfy, at any Branch Bank of the said Governor and Company, any Note or Notes of the said Governor and Company not made specially payable at such Branch Bank; but the said Governor and Company shall be liable to pay and satisfy at the Bank of *England* in *London* all Notes of the said Governor and Company, or of any Branch thereof.

VII. And be it further enacted, That no Bill of Exchange or Promissory Note made payable at or within Three Months after the Date thereof, or not having more than Three Months to run, shall, by reason of any Interest taken thereon or secured thereby, or any Agreement to pay or receive or allow Interest in discounting, negociating, or transferring the same, be void, nor shall the Liability of any Party to any Bill of Exchange or Promissory Note be affected by Reason of any Statute or Law in force for the Prevention of Usury, nor shall any Person or Persons drawing, accepting, indorsing, or signing any such Bill or Note, or lending or advancing any Money, or taking more than the present Rate of legal Interest in *Great Britain* and *Ireland* respectively for the Loan of Money on any such Bill or Note, be subject to any Penalties under any Statute or Law relating to Usury, or any other Penalty or Forfeiture; any thing in any Law or Statute relating to Usury in any Part of the United Kingdom to the contrary notwithstanding.

VIII. And be it further enacted, That an Account of the Amount of Bullion and Securities in the Bank of *England* belonging to the said Governor and Company, and of Notes in Circulation, and of Deposits in the said Bank, shall be transmitted weekly to the Chancellor of the Exchequer for the Time being, and such Accounts shall be consolidated at the End of every Month, and an average State of the Bank Accounts of the preceding Three Months, made from such consolidated Accounts as aforesaid, shall be published every Month in the next succeeding *London Gazette*.

IX. And be it further enacted, That One Fourth Part of the Debt of Fourteen million six hundred and eighty-six thousand eight hundred pounds, now due from the Public to the Governor and Company of the Bank of *England*, shall and may be re-paid to the said Governor and Company.

X. And be it further enacted, That a General Court of Proprietors of the said Governor and Company of the Bank of *England* shall be held at some Time between the passing of this Act and the Fifth Day of *October* One thousand eight hundred and thirty-four, to determine upon the Propriety of dividing and

appropriating the Sum of Three million six hundred thirty-eight thousand two hundred and fifty Pounds, out of or by means of the Sum to be repaid to the said Governor and Company as herein-before mentioned, or out of or by means of the Fund to be provided for that Purpose, amongst the several Persons, Bodies Politic or Corporate, who may be Proprietors of the Capital Stock of the said Governor and Company on the said Fifth Day of *October* One thousand eight hundred and thirty-four, and upon the Manner and the Time for making such Division and Appropriation, not inconsistent with the Provisions for that Purpose herein contained; and in case such General Court, or any adjourned General Court, shall determine that it will be proper to make such Division, then, but not otherwise, the Capital Stock of the said Governor and Company shall be and the same is hereby declared to be reduced from the Sum of Fourteen million five hundred and fifty-three thousand Pounds, of which the same now consists, to the Sum of Ten millions nine hundred fourteen thousand seven hundred and fifty pounds, making a Reduction or Difference of Three million six hundred and thirty-eight thousand two hundred and fifty Pounds Capital Stock, and such Reduction shall take place from and after the said Fifth Day of *October* One thousand eight hundred and thirty-four; and thereupon, out of or by means of the Sum to be repaid to the said Governor and Company as herein-before mentioned, or out of or by means of the Fund to be provided for that Purpose, the Sum of Three million six hundred and thirty-eight thousand two hundred and fifty Pounds Sterling, or such Proportion of the said Fund as shall represent the same, shall be appropriated and divided amongst the several Persons, Bodies Politic or Corporate, who may be Proprietors of the said Sum of Fourteen million five hundred and fifty-three thousand Pounds Bank Stock on the said Fifth Day of *October* One thousand eight hundred and thirty-four, at the Rate of Twenty-five Pounds Sterling for every One hundred Pounds of Bank Stock which such Persons, Bodies Politic or Corporate, may then be Proprietors of or shall have standing in their respective Names in the Books kept by the said Governor and Company for the Entry and Transfer of such Stock, and so in proportion for a greater or lesser Sum.

XI. Provided always, and be it enacted, That the Reduction of the Share of each Proprietor of and in the Capital Stock of the said Governor and Company of the Bank of *England*, by the Repayment of such One Fourth Part thereof, shall not disqualify the present Governor, Deputy Governor or Directors, or any or either of them, or any Governor, Deputy Governor, or Director who may be chosen in the Room of the present Governor, Deputy Governor or Directors at any Time before the General Court of the said Governor and Company to be held between the Twenty-fifth Day of *March* and the Twenty-fifth Day of *April* One thousand eight hundred and thirty-five: Provided that at the said General Court, and from and after the same, no Governor, Deputy Governor, or Director of the said Corporation shall be capable of being chosen such Governor, Deputy Governor, or Director, or shall continue in his or their respective Offices, unless he or they respectively shall at the Time of such Choice have, and during such his respective Office continue to have, in his and their respective Name, in his and their own Right, and for his and their own Use, the respective Sums or Shares of and in the Capital Stock of the said Corporation in and by the Charter of the said Governor and Company prescribed as the Qualification of Governor, Deputy Governor, and Directors respectively.

XII. Provided also, and be it enacted, That no Proprietor shall be disqualified from attending and voting at any General Court of the said Governor and Company, to be held between the said Fifth Day of *October* One thousand eight hundred and thirty-four and the Twenty-fifth Day of *April* One thousand eight hundred and thirty-five, in consequence of the Share of such Proprietor of and in the Capital Stock of the said Governor and Company having been reduced by such Repayment as aforesaid below the Sum of Five Hundred Pounds of and in the said Capital Stock; provided such Proprietor had in his own Name the full Sum of Five hundred Pounds of and in the said Capital Stock on the said Fifth Day of *October* One thousand eight hundred and thirty-four; nor shall any Proprietor be required, between the said Fifth Day of *October* One thousand eight hundred and thirty-four and the Twenty-fifth Day of *April* One thousand eight hundred

and thirty-five, to take the Oath of Qualification in the said Charter.

XIII. And be it further enacted, That from and after the said First Day of *August* One thousand eight hundred and thirty-four the said Governor and Company, in consideration of the Privilege of exclusive Banking given by this Act, shall, during the continuance of such Privileges, but no longer, deduct from the Sums now payable to the said Governor and Company, for the Charges of Management of the Public Unredeemed Debt, the annual Sum of One hundred and twenty thousand Pounds, any thing in any Act or Acts of Parliament or Agreement to the contrary notwithstanding: Provided always, that such Deduction shall in no respect prejudice or affect the Right of the said Governor and Company to be paid for the Management of the Public Debt at the Rate and according to the Terms provided in an Act passed in the Forty-eighth Year of His late Majesty King *George* the Third, intituled *An Act to authorize the advancing for the Public Service, upon certain Conditions, a Proportion of the Balance remaining in the Bank of* England *for Payment of unclaimed Dividends, Annuities, and Lottery Prizes, and for regulating the Allowances to be made for the Management of the National Debt.*

XIV. And be it further enacted, That all the Powers, Authorities, Franchises, Privileges, and Advantages given or recognised by the said recited Act of the Thirty-ninth and Fortieth Years aforesaid, as belonging to or enjoyed by the Governor and Company of the Bank of *England*, or by any subsequent Act or Acts of Parliament, shall be and the same are hereby declared to be in full force and continued by this Act, except so far as the same are altered by this Act, subject nevertheless to such Redemption upon the Terms and Conditions following; (that is to say,) that at any Time, upon Twelve Months Notice to be given after the First Day of *August* One thousand eight hundred and fifty-five, and upon Repayment by Parliament to the said Governor and Company or their Successors of the Sum of Eleven millions fifteen thousand one hundred Pounds, being the Debt which will remain due from the Public to the said Governor and Company after the Payment of the One Fourth of the Debt of Fourteen millions six

hundred and eighty-six thousand eight hundred Pounds as hereinbefore provided, without any Deduction, Discount, or Abatement whatsoever, and upon Payment to the said Governor and Company and their Successors of all Arrears of the Sum of One hundred thousand Pounds *per Annum* in the said Act of the Thirty-ninth and Fortieth Years aforesaid mentioned, together with the Interest or Annuities payable upon the said Debt, or in respect thereof, and also upon Repayment of all the Principal and Interest which shall be owing unto the said Governor and Company and their Successors upon all such Tallies, Exchequer Orders, Exchequer Bills, or Parliamentary Funds which the said Governor and Company or their Successors shall have remaining in their Hands or be entitled to at the Time of such Notice to be given as last aforesaid, then and in such case, and not till then, (unless under the Proviso herein-before contained,) the said exclusive Privileges of Banking granted by this Act shall cease and determine at the Expiration of such Notice of Twelve Months.

XV. And be it further enacted, That this Act may be altered, amended, or repealed by any Act to be passed in this Session of Parliament.

THE BANKING AND CURRENCY CONTROVERSY, 1840–4

SELECT COMMITTEE ON BANKS OF ISSUE

Evidence of SAMUEL JONES LOYD, Esq., before the Select Committee of the House of Commons on Banks of Issue, 1840.

(Parliamentary Papers, 1840, vol. iv.)

17th July 1840.

2654. (*The Chairman*—Henry Warburton, Esq.) What, in your opinion, is the sound principle according to which the circulation should be regulated?—A metallic currency, I conceive, by virtue of its own intrinsic value, will regulate itself; but a paper currency, having no intrinsic value, requires to be subjected to some arti-

ficial regulation respecting its amount. The use of paper currency is resorted to on account of its greater economy and convenience, but it is important that that paper currency should be made to conform to what a metallic currency would be, and especially that it should be kept of the same value with the metallic currency, by being kept at all times of the same amount. Now, the influx and efflux of gold is the only sure test of what would have been the variations of a metallic currency, and, therefore, I conceive that that constitutes the only proper rule by which to regulate the fluctuations of a paper currency.

2655. What is it that you include in the term circulation?—I include, in the term circulation, metallic coin, and paper notes promising to pay the metallic coin to bearer on demand.

2656. Do you include in the circulation of the Bank of England, the reserve held by the Bank of England against its deposits?—As the accounts are at present kept, that is not included in the circulation; but, under a proper separation of the accounts, I conceive that it would be included. The circulation now includes only those notes which are out of the walls of the Bank of England; under a proper separation of the accounts, it would include all notes that are out of the walls of the currency department, and, therefore, of course would include the notes that are in the till of the banking department.

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2661. In your definition, then, of the word circulation, you do not include deposits?—No, I do not.

2662. Do you include bills of exchange?—No, I do not.

2663. Why do you not include deposits in your definition of circulation?—To answer that question, I believe I must be allowed to revert to first principles. The precious metals are distributed to the different countries of the world by the operation of particular laws, which have been investigated and are now well recognised. Those laws allot to each country a certain portion of the precious metals, which, whilst other things remain unchanged, remains itself unchanged. The precious metals, converted into coin, constitute the money of each country. That coin circulates sometimes in kind; but in highly advanced countries it is repre-

sented, to a certain extent, by paper notes, promising to pay the coin to bearer on demand; these notes being of such a nature, in principle, that the increase of them supplants coin to an equal amount. Where those notes are in use, the metallic coin, together with those notes, constitutes the money or currency of that country. Now, this money is marked by certain distinguishing characteristics; first of all, that its amount is determined by the laws which apportion the precious metals to the different countries of the world; secondly, that it is in every country the common measure of the value of all other commodities, the standard by reference to which the value of every other commodity is ascertained, and every contract fulfilled; and thirdly, it becomes the common medium of exchange for the adjustment of all transactions, equally at all times, between all persons, and in all places. It has further the quality of discharging those functions in endless succession. Now, I conceive, that neither deposits nor bills of exchange in any way whatever possess those qualities. In the first place, the amount of them is not determined by the laws which determine the amount of the precious metals in each country; in the second place, they will in no respect serve as a common measure of value, or a standard by reference to which we can measure the relative values of all other things; and in the next place, they do not possess that power of universal exchangeability which belongs to the money of the country. . . .

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2665. Under similar circumstances, will the aggregate amount credited to depositors in bankers' books bear some relation to the quantity of money in the country?—During temporary fluctuations in the amount of circulation, all other things remaining unchanged, I conceive the amount of deposits will be affected by such fluctuations.

2666. Is the amount of bills of exchange dependent in some degree on the quantity of money?—I apprehend that it is dependent in a very great degree. I consider the money of the country to be the foundation, and the bills of exchange to be the superstructure raised upon it; I conceive that bills of exchange are an important form of banking operations, and the circulation of the

country is the money in which these operations are to be adjusted; any contraction of the circulation of the country will act of course upon credit; bills of exchange being an important form of credit will feel the effect of that contraction in a very powerful degree; they will, in fact, be contracted in a much greater degree than the paper circulation; this point was adverted to in the inquiries of the Committee of 1832, and the question was put in a very pointed form to Mr. Burgess, the secretary of the Country Bankers' Association, and I have therefore extracted the question put, and his answer to it: ' Is it the result of your experience that, upon a contraction of the issues of the Bank taking place, the amount of bills of exchange is also narrowed, and is it in the exact ratio, or in a very increased ratio?—It is in a very increased ratio.' I believe that answer to be perfectly correct.

2667. (*Sir Robert Peel*) What are the elements which constitute money, in the sense in which you use the expression, ' quantity of money'; what is the exact meaning you attach to the words ' quantity of money '—' quantity of metallic currency '?—When I use the words quantity of money, I mean the quantity of metallic coin and of paper notes promising to pay the coin on demand, which are in circulation in the country.

2668. Paper notes payable by coin?—Yes.

2669. By whomsoever issued?—Yes.

2670. By country banks as well as other banks?—Yes.

2671. (*The Chairman*) Would this superstructure, consisting of sums credited to depositors in bankers' books and bills of exchange, equally exist, although no notes payable in coin on demand existed in the country?—Yes, I apprehend that every question with respect to deposits and with respect to bills of exchange, is totally distinct from the question which has reference to the nature of the process of substituting promissory notes in lieu of coin, and of the laws by which that process ought to be governed. If the promissory notes be properly regulated, so as to be at all times of the amount which the coin would have been, deposits and bills of exchange, whatever changes they may undergo, would sustain those changes equally, either with a metallic currency, or with a paper currency properly regulated; conse-

quently, every investigation respecting their character or amount is a distinct question from that which has reference only to the substitution of the paper notes for coin.

2672. There would be no reason why, if there were no notes payable in coin on demand, the amount of this superstructure should be less than it now is, with a mixed circulation of specie and of notes payable on demand?—None whatever; I apprehend that upon the supposition that the paper notes are kept of the same amount as the metallic money, the question of the superstructure, whether of deposits or of bills of exchange, remains precisely the same.

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2675. (*Mr. Attwood*) Would you consider that the superstructure of bills of exchange, founded entirely upon a metallic currency, might at particular times become unduly expanded?—The answer to that question depends entirely upon the precise meaning of the word, unduly. I apprehend, undoubtedly, that it is perfectly possible that credit, and the consequences which sometimes result from credit, viz., over-banking in all its forms, and the over-issue of bills of exchange, which is one important form of over-banking, may arise with a purely metallic currency; and it may also arise with a currency consisting jointly of metallic money and paper notes promising to pay in coin; and I conceive further, that, if the notes be properly regulated, that is, if they be kept of the amount which the coin otherwise would be, whatever over-banking would have arisen with a metallic currency, would arise, and to the same extent, neither more nor less, with money consisting of metallic coin and paper notes jointly.

2676. May not over-banking and over-issue of bills of exchange, forming a superstructure based upon money composed of metal and paper notes, derange the certainty of the notes being duly paid in gold?—I apprehend that if the paper notes be properly regulated, according to the sense which I have already attributed to that expression, and if a proper proportion of gold be held in reserve, the solidity of the basis cannot be disturbed; that is, that if there be a proper contraction of the paper notes as gold goes out, the convertibility of the paper system will be effectually

preserved by the continually increasing value of the remaining quantity of the currency, as the contraction proceeds.

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2713. (*The Chairman*) From contrasting, then, the conduct of the Bank at this period, from 1830 to 1832, with its conduct at the period of the three other drains, and considering that it was not attended with such violent results as those other drains were, are you led to infer that the wisest course for the Bank to pursue, as being that which is ultimately attended with the least amount of evil consequences to the mercantile interests of the country, is, that so soon as a drain commences, the Bank should operate on the exchanges by diminishing its issues?—Undoubtedly, that is the conclusion to which I come; my object in alluding to the drains of the four periods in question, namely, the drain terminating in the crisis of 1825, the drain which continued from the year 1830 to the year 1832, the third drain, which began in the end of the year 1833 and terminated in the year 1836, and the last drain, which began in 1838 and ended in the autumn of 1839, has been for this purpose; to show that of those four drains, three of them were not met by any contraction of the paper circulation of the country; and those three drains all terminated in a severe crisis, in a very exhausted state of bullion, in great commercial difficulties, and in a state of general alarm respecting the safety of our monetary system; but that the fourth drain, namely, that from 1830 to 1832, was met by a contraction on the part of the Bank of England, bearing about the same proportion to the amount of the bullion lost which the issues of the Bank of England bear to the aggregate paper issues of the country; the country issues at that particular period being under a legislative action which, no doubt, necessitated a reduction on their part; the result was, that the drain passed off, in the words of Mr. Horsley Palmer, ' without discredit or distrust of any kind '. It is also remarkable, with respect to those drains, that the three which terminated in a crisis, whilst they were not met by a contraction on the part of the Bank of England, were preceded in each case by an expansion of country issues from their lowest point to nearly their highest point; and it is also further remarkable that

the drain of 1825, which terminated in the severest crisis of the four, and in which the bullion was reduced to much the lowest point, began upon a reserve of bullion considerably higher than that which any of the other crises began upon. The inferences from these facts seem to me to be so clear, that they do not require stating. . . .

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2717. (*Mr. Attwood*) Assuming that the Bank, in June, 1838, when her bullion stood at £9,700,000, had possessed a reserve of bullion to double that amount, and had pursued, when her bullion commenced to be reduced, the same measures of contraction which she actually did pursue, would there have existed in September, 1839, any danger, in your opinion, of the Bank not being able to convert its notes into bullion?—I apprehend that the stoppage of the drain of the years 1838 and 1839 was not effected by the contraction of the paper circulation; and it appears to me that that is pretty obvious from the returns before us. The stoppage of the drain, I believe, arose from a great state of public alarm, which tended to render a certain quantity of circulating medium less effective for its purposes. That alarm arose principally from the knowledge on the part of the public of the very exhausted state of the bullion, in some degree aided by the action of the Bank of England in raising its rate of interest. I attribute the stoppage of the drain of 1839 to those two circumstances. Now, if the Bank had held a larger amount of bullion, commencing, for instance, in the year 1838 with 20 millions of bullion instead of 10, my first apprehension is, that she would not in that case have raised the rate of interest even at the late period at which she did resort to that measure. My second apprehension is, that that state of public feeling which was really the protecting cause, would not have come into play so soon as it did; that consequently the undue state of our circulation would have been prolonged for a greater period of time, and that, during that prolongation, speculation and an undue range of prices would have had a longer existence, and consequently that the catastrophe at the end would have been much more severe. And I must also add this remark, that if it is assumed that we start with a certain,

say a very large, amount of bullion, and that a large proportion of that bullion is drained out, then, of course, for the purpose of restoring us to our proper state, a very large amount of bullion must be recovered. To effect this, I conceive that contraction will be necessary, and the extent of that contraction will be proportionate to the amount of bullion to be recovered.

2718. Will you be so good as to direct your attention to the gist of the question, which was, whether the Bank, if it had that large amount of bullion, would have been in a secure state if it had taken all the measures which it did take, with a view to contract the circulation or to operate upon prices?—The only measure which the Bank took, was that of raising the rate of interest; and whether that measure of itself alone, acting in concurrence with a very large stock of bullion, would have been sufficient to stop the drain, I confess I am unable to say; but I should entertain great doubt; and it may also be doubted whether, with a large stock of bullion, the recourse to that measure would not have been still further delayed.

2719. Will you take into consideration all the other circumstances independent of the action of the Bank, by which the drain was finally stopped, as well as the measures adopted by the Bank; and then say whether the Bank would have been in a secure state with £12,700,000 in its coffers, in September, 1839?—I have already stated that the main circumstance which I am now called upon to take into consideration was the alarm prevalent upon the public mind. Now, that circumstance could not co-exist with a very large store of bullion in the hands of the Bank. It was an apprehension in the mind of the public, that the treasure of the Bank was in an exhausted state, and that the Bank would probably be compelled for self-protection to resort to sudden and very stringent measures of contraction, which produced alarm in the public mind, and that alarm was the great cause of the check put upon the further drain of bullion.

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2722. (*Chairman*) You have shown that the issues of the country banks do not conform to those of the Bank of England; do you consider that the Bank of England has any efficient control over

the issues of the country banks?—The Bank of England has no direct and immediate control over the issues of the country banks; it has an ultimate control, acting through its effect upon credit and upon prices; but it appears to me that all the issuers of paper money ought to act concurrently with each other, not one in obedience to another. It appears to me that they ought all to be joint controllers of the money operations in the country; not one party controlled by the other.

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2725. Do you consider it expedient that some control should be exercised by the Government over the issues of all the issuers of notes payable on demand?—It seems to me unavoidable that control, either direct or indirect, must be exercised over all the paper issues of the country. If the control is indirect, of course it is slow, it is also uncertain in its extent, and, in effecting it, there must be an additional and unnecessary pressure upon the community; that would not arise if the control was immediately upon the issues themselves; therefore, it appears to me, that a direct control is more advantageous to the public interests and more safe for the object in view than an indirect control. . . .

2726. How would your rule for the management of the currency, making it expand and contract with the increase and diminution of the bullion, have operated during the period of the drain from 1833 to 1837, and during the drain from 1838 to 1839?—It appears to me that it would have operated in the most eminently beneficial manner. In the first place, it would have substituted a contraction in the early stage of the drain, in the place of a contraction in a late stage of the drain; it would have produced a regulation that depended upon principle, instead of a regulation that depended upon panic, and therefore was incapable of being measured or regulated by any fixed rule. The contraction, upon that supposition, would have commenced in the early stage of the drain, before speculation and the rise of prices had reached its full height; and it would also have commenced before the internal drain had sprung up. Now, it is a very remarkable and very important phenomenon attending these drains, that the drain always goes on for some length of time, before prices, and specula-

tion, and over-trading, and over-banking have reached their maximum point; and that the last stage of the drain is always characterized by the springing up of internal alarm, which gives rise to an internal drain. Now, an internal drain is clearly one that can be met by no principle; there is no method of meeting it but by paying out gold, till the drain ceases. It appears to me that contraction applied in the early stages would be applied when it could be borne without inconvenience to the community, and that it would necessarily tend to counteract and check in their early growth those tendencies, viz. to speculation, over-trading, excessive rise of prices, which by their undue expansion under our present system, and the consequent violence of the subsequent collapse, produce the extreme intensity which characterizes the commercial crisis of this country. I think that this view might be confirmed very completely, by following the supposed application of it through the period from 1834 downwards. For instance, take even the very first year—we know that the mischief that subsequently arose in the year 1837 was principally produced by three circumstances, namely, by excessive credits given by this country to the United States, by excessive investments made in foreign securities, and by the very rapid and excessive expansion of the joint stock bank system. Those were the three circumstances that preceded the crisis of 1837, and tended to produce its mischief. Now, those three things were growing up during the preceding years, and the question is, if, at the commencement of the drain of bullion in the beginning of the year 1834, we had then applied contraction of the circulation, to what extent the growth of those three circumstances would have been arrested in their early stage, and the evils which afterwards ensued would have been prevented or mitigated. Now, during the year 1834, the bullion underwent a diminution of £3,200,000, during the same time the aggregate paper circulation underwent an increase of £600,000; if, during that year, the paper circulation had been contracted in correspondence with the bullion, it would have stood at about three millions and a half lower than it did stand at the end of the year 1834. That, of course, is upon the supposition that the drain during 1834 would have gone, in the face of a contracted circulation, to the extent to which it did go, which

probably would not have been the case; but I apprehend that no person can doubt that if that contraction, or any thing at all approaching to that contraction, had been resorted to in 1834, the great mischief that burst out in the year 1837 would have been obviated. The drain would not have gone to the same extent; undue credits to America, undue investments in foreign securities, and the undue expansion of the joint stock bank system would all have been limited in so great a degree as to have reduced the events of 1837 to that which characterized the events of 1832; that, in fact, the thing would have passed off in 1837, as it did in 1832, without ' discredit or distrust of any kind '.

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2729. (*Mr. Attwood*) You have stated that the error was committed by the issuers of paper-money in the year 1834, in not making a reduction of their issues in correspondence with the loss of bullion; could the country bankers be expected to make such a reduction in their circulation, if none was effected previously in the circulation of the Bank of England?—I hope that the committee will clearly understand that, in any remarks that I make, nothing can be farther from my intention than to attribute any impropriety of conduct to country bankers, as individuals or as bankers. They are administering a system, and, I believe, administering it in the manner that most men would administer it; I have not the smallest doubt that I should act in the same way under the same circumstances. But the whole question at issue is this: I believe that a great deal of the severity of the commercial crises in this country, and of the evils that attend them, are attributable to the want of contraction of the paper circulation of the country in correspondence with the bullion; and I believe, firmly, that no parties would be more benefited by a contraction of the circulation in correspondence with the bullion than the bankers themselves. I believe that it would be eminently calculated to give steadiness, regularity, security, and a satisfactory character to their business; I say so from some considerable experience. It has been my fate to be connected with very extensive banking establishments, both in town and country, during the four crises which have taken place; I have been forced

to watch the storm, whilst it has been raging around me, and afterwards to endeavour to understand the causes which have led to it, and the consequences which have ensued from them; and I am thoroughly convinced that my own interest, and, I believe, the interest of every brother banker in the country, would be promoted in an eminent degree by the regulation of the paper circulation for which I contend. The absence of it seems to me to be the great fomenter of our internal panics, and I am quite sure that country bankers who can remember what they went through in 1825, will readily admit, that any plan by which the recurrence of any thing like those events could be prevented, would be the greatest advantage that could be conferred upon them in their business. I do not, in the slightest degree, mean to say that country bankers, individually or collectively, are blameable for not contracting their circulation in 1834, whether the Bank of England contracted or did not; all I say is, that I believe the community at large, and the country bankers themselves most essentially, suffer great evils in consequence of the laws of the country not being of such a nature as to secure to the community the benefits to be derived from a paper circulation, corresponding strictly with the variations of bullion.

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2732. (*Chairman*) Is there any common cause to which you attribute the mismanagement of the circulation by the different classes of issuers?—I apprehend, that the mismanagement of the circulation generally is very closely connected with the union which exists between the functions of banking and the functions of issue.

2733. Can you show that, from any examination of the returns furnished by the Bank of England?—It seems to me that that is evidenced in a great variety of ways. In the first place, the very rule of the Bank of England, which it laid down in 1832 for the guidance of its affairs, is an indication of it; it is a rule which blends the deposit business with the business of issue. In the second place, it seems to me that the whole doctrine of the duty of the Bank of England to support public credit (a doctrine strongly enforced by public opinion, and, as I think, too readily acquiesced in by the Bank itself) emanates from the same source.

In the third place, there is the notorious fact, that whenever the Bank attempts to contract its circulation by a sale of other securities, the intended contraction is generally nullified by an increase of its discounts. In the fourth place, there is the fact, which is shown by an examination of the accounts, that during a drain of bullion the Bank finds it impossible to contract its circulation, on account of the demand made on it through its banking business; and then, again, when that drain is turned, and the gold is flowing into the Bank, and their circulation ought to be expanded, the contraction still goes on, in consequence of the banking securities, taken during the preceding pressure, running off, and the Bank is then placed in a situation of great difficulty, to know how to keep up its securities. These seem to me to be all phenomena illustrative of the inconvenience and derangement which arise from the union of banking business with issue. Again, as respects the country bankers, the very principle upon which they manage their issues, and which they contend to be beneficial to the community, is, that of making their issues expand and contract with the rise and fall of prices, and with the increase or diminution of the demands or wants of the community around them. These are all illustrations of the confusion and derangement which arise from the union of issue and banking.

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2736. Then you are of opinion that the union of these two functions in the same body tends to produce confusion in the public mind as to what the proper duties are of a body which, like the Bank of England, has to superintend issues?—Yes, certainly; I have already stated that I think that the duty of supporting public credit has been thrown upon the Bank to a much greater extent than it would have been thrown upon a manager of the circulation, if she had been understood to be limited to that function; and it seems to me that almost all the fallacies which are prevalent on the subject of the circulation or the currency, arise out of a confused view of those two different functions. The principles of currency are in themselves simple enough; but by mingling the management of circulation with banking operations great confusion has arisen; for instance, the charges against the conduct

of the Bank in 1835, seem to me to be entirely founded upon the confusion between what was their duty in managing their circulation, and what was their duty in their banking capacity. Again, I have seen pamphlets, which say, sometimes directly, and almost always in an implied manner, that it is the duty of the Bank to regulate prices; that it is the duty of the Bank of England to regulate the rate of interest; that the country issues ought to be regulated by the supposed wants of their respective districts; that a rise of prices requires and justifies an increase of issues, and a variety of other ideas of the same kind; all of which seem to me to spring out of the want of a due separation, in the minds of those who write upon the subject, of the functions of issue and of banking.

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2746. Do you consider that the convertibility of the note payable on demand is secure under the present system?—No; I think that the convertibility of our paper issues is not sufficiently protected under the present system.

2747. Do you consider that it has been endangered?—Yes, I think it must be clearly admitted to have been endangered to a high degree in 1825, and certainly exposed to serious danger in 1839. At the same time, I think this remark ought to be made; that almost in any extremity of the state of bullion, the Bank of England has means within its power of producing such an action upon the public as shall be sufficient to stop the foreign drain; but the difficulty is, that if it allows the bullion to get to a low point, the action to stop the foreign drain must then be very sudden and of a nature very severe and ruinous to the commercial community; also, there is great danger with such an action, of exciting an internal demand, and when once the internal demand is raised, there is no principle upon which you can stop that.

2748. Are there any other evils besides the danger of non-convertibility, that arise out of the present system?—There can be no doubt about it—the state of the circulation has a very direct effect upon the state of credit, of confidence, of prices, and of banking; and if the state of the circulation be allowed to become an unnatural one, unnatural and pernicious effects will be produced upon all those. If your circulation is subject either to

depreciation from the excess of its amount, or to violent fluctuations of amount, then, undoubtedly, that will be followed by corresponding effects upon confidence, upon credit, upon prices, upon banking, and so forth. Those things are also affected by other considerations. I do not see that it is possible to analyse the effects, and to attribute to each cause its respective share in producing those effects; all that can certainly be understood is that if you regulate the paper circulation upon sound principles, you may be quite sure that you have then removed that portion of the evil effects which was attributable to the want of due regulation.

2749. How is convertibility to be most securely provided for?—I apprehend by taking care that the paper money of the country is always kept at the same value as the metallic money, by always keeping it at the same amount.

2750. Does this apply to all circumstances equally of an efflux and influx of bullion?—Yes, it applies equally in both cases.

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2775. Is the reliance of the mercantile body upon the supposed duty of the Bank of England to relieve them in times of pressure productive of any public disadvantages?—I think it certainly leads to demands upon the Bank which she cannot meet without violating her duty in managing the circulation.

2776. (*Mr. Ellice*) In point of fact, during your experience, has the Bank, except upon one occasion, when it interfered to uphold the credit of the American merchants, ever given such assistance to the public as was likely to interfere with the circulation of the Bank?—I am inclined to think that the action of the Bank with respect to its circulation has been frequently disturbed by its endeavour to satisfy the demands of the public for what may be called support or accommodation. I think, for instance, that whenever discounts are swallowing up her attempts to contract her circulation by other means, that is an indication of the very thing I am speaking of, namely, that her endeavour to supply the demands of the commercial world is interfering with that which she would otherwise effect.

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21st July 1840.

2784. (*The Chairman*) In 1839 some American houses applied to the Bank for assistance, which the Bank offered to them to a limited but insufficient amount, and they ultimately obtained the amount requisite from capitalists in the money market; can you state what was the amount tendered by the Bank, and what was the amount which they ultimately obtained from the money market?—The transaction to which you refer was an application by, what is called, the United States Bank for advance, in the year 1839; I am not sure that I can state the circumstances with great accuracy, but I can state them with sufficient general accuracy. The agent in this country of the United States Bank applied to the Bank of England for aid under circumstances of great emergency, as regarded that concern. The Bank of England offered to him a loan of £300,000 in stock, not in money, to be advanced upon the personal securities of responsible parties in this country; that offer was not deemed sufficient to accomplish the end in view, and therefore was not made use of; subsequently to that a number of private individuals united for the purpose of accomplishing the object, and they advanced to the same party £800,000 in money, for the period, I think, of a year and a half or two years, and upon the deposit of American securities only; the loan tendered by the Bank was for one month only. Of course, in referring to this, I do not mean to throw the slightest blame upon the Bank of England for not having made a more liberal offer, as it would be called; I believe the difficulty would be rather to justify the Bank in going so far under the circumstances, than to defend her against any charge of not having gone further. Having raised this question of support of public credit, perhaps the Committee will allow me to advert to a point which occupied our attention near the close of my examination on the former day, namely, the question of the support of public credit and the distinction between that support to public credit which is given by aid rendered to particular establishments, with a view of preventing that spread of general alarm which might arise from the embarrassment of a particular concern, and that support to public credit which is afforded by the general expansion of the advances of the Bank of England upon

discounts, and upon every other species of mercantile security. With regard to the support of public credit of the first description, the utility of such measures may be subject to very serious question. If we look to the practical results in each case in which it has been resorted to, we should very probably be led to form a low estimate of the value of such measures; but at all events the banking resources of the Bank of England would be amply sufficient to meet every demand that could possibly arise for that purpose. With regard to the second form of supporting public credit, which is the meaning in which I have always been accustomed to use the phrase ' support of public credit ', and I believe that will be found to be the meaning in which it was used in the discussions in the Committee of 1832, and that that is the meaning ordinarily attached to it by the public; for the support of public credit of that nature, nothing can be sufficient but the general capital of the country, allowed to distribute itself freely, without any interruption by artificial laws. Any increase of issue by the Bank of England, or by any other establishment, cannot alter the amount of the capital of the country; it can only partially affect the distribution of it, placing the command of a larger portion in the hands of those persons to whom that increase of issue is made, and at the same time necessarily withdrawing the command of it from some other parties, who may very possibly be equally or more capable of using it advantageously. Upon this point I am glad to be able to confirm my own view, by quoting the very high authority of the late Mr. Ricardo, who thus expressed himself: 'A great deal of stress has always been laid upon the benefits which commerce derives from the accommodation afforded to merchants by the Bank. I believe it to be quite insignificant, compared with that which is afforded by the private funds of individuals.' There is also a passage in the evidence given by Mr. Tooke in the year 1832, which bears upon another part of the observations I have just made; the question and answer are these: ' Supposing that there should be a deficiency of capital for the purposes of agriculture, it is a circumstance that does not come within your knowledge? ' The answer is, ' More capital may be desirable, but I am not aware that any operation of banking would give the desired increase. I would say, once

for all, that in my opinion no operations of banking add at any given moment to the previously existing capital; they only serve to distribute it in an advantageous manner'. And in the following answer he adds, 'I can only speak from my general opinion of the nature of capital, that the issue of paper money does not create capital. In the case of the banker issuing paper money he advances his credit, while the capital he thus commands and transfers is that which already existed, and might have been equally applicable in the way of loan through some other channel'.

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2794. Upon what do you conceive the rate of interest to depend; does it depend upon the amount of circulation?—The rate of interest may be temporarily affected during an increase or a diminution in the amount of paper circulation. I apprehend that the general range of the rate of interest is liable to be affected in varying degrees by many considerations; but it is correct to say generally, that it depends upon the proportion between the quantity of capital in the country and the demand for the employment of it.

2795. Does the Bank of England regulate it?—No. It cannot be said, in the proper meaning of the words, that the Bank regulates the rate of interest in this country, though she undoubtedly may exercise an influence over the temporary fluctuations in the rate of interest. During short periods, the Bank of England, being a very large and powerful body, with means and resources out of proportion to the mass of the community, may produce slight temporary oscillations in the rate of interest; but she cannot affect the general average altitude of the rate of interest.

2796. Do you apprehend that it is possible for a steady rate of interest to be preserved in this country?—No. I conceive it to be quite impossible; in a country like this, with a highly accumulated capital, with great enterprize, with a great spirit of speculation, with very extensive commercial relations with all parts of the world, and of a highly manufacturing character also, it appears to me impossible to avoid considerable oscillations in the rate of interest.

2797. The Bank of England, therefore, in your opinion, has no

power to keep the rate of interest steady?—No; I think the doctrine of calling upon the Bank of England to keep the rate of interest steady is quite absurd.

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2819. If a deposit account be transferred from one London banker to another London banker, and both bankers invest the same proportion of their deposits in securities, and keep the same proportion as a reserve, will the transfer of deposits from one banker to another banker occasion any difference, in prices or in the exchanges?—I apprehend that upon the supposition of all the proportions being preserved unchanged, the transfer of the fund from one hand to the other will only alter the condition of the two houses from and to which the transfer is made, and the general condition will be preserved the same.

2820. If such a transfer of a deposit be made from a London banker to the Bank of England, and the Bank of England invests the same proportion of its deposits in securities, and maintains the same proportion as a reserve, as the London banker does, will prices or the exchanges be affected by such a transfer?—It is quite clear that it would be absurd to suppose that they could be; if the amount of money invested and of money reserved be kept in the same proportion, it cannot produce any sort of effect, except upon the parties immediately affected, whether that be done through the medium of A, B, or C.

2821. Then the aggregate amount of deposits, of circulation, of securities and of reserves would remain precisely the same, after the transfer took place from one banker to another, as before?—That I apprehend to be the statement in the question.

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2834. How far is the circulation generally affected by payment on deficiency bills?—The payment of the dividends at the four quarters of the year has necessarily a tendency to throw out a large amount of issues from the coffers of the Bank at the period of the dividends, and to produce consequently rather a violent contrast between the amount of circulation immediately preceding the dividends and the amount of circulation immediately subse-

quent to the dividends. The Bank has, within the last few years, resorted to a measure that has worked extremely well for the purpose of mitigating that difficulty, namely, that of making temporary advances during the month preceding the payment of the dividends, to be discharged during the month in which the dividends are coming due; and by that means an approach is made to an equalized state of the circulation.

2835. Is it material on what securities those advances are made? —No, I do not apprehend that it is a matter of much consequence on what securities they are made. Generally speaking, I should say that the advances of the paper issues of the country should be made upon Government securities; but this is an advance of a temporary nature, and to meet a peculiar and transitory difficulty, and probably advances upon mercantile securities would be found more efficient for the purpose.

2836. Those quarterly advances are usually made, are they not, at the market rate of interest at the time?—Yes; I should apprehend rather under than above the market rate of interest.

2837. The Bank rate of discount is generally considerably above the market rate, is it not?—During periods of tranquillity in money matters, the Bank rate of discount is generally above the market rate, but during periods of heavy pressure, I should be inclined to say that the market rate was above the Bank rate.

2838. If the quarterly advances were made at the usual rate of discount on mercantile bills, would it not have the effect of preventing those advances from being made at all, under ordinary circumstances?—I think it is very possible that it would prevent their being made to the extent to which it is desirable that they should be made.

2839. What was the effect of the Bank raising the rate of interest in 1839?—I apprehend that the effect was extremely valuable; it was the one measure by which the Bank did any thing to meet the drain under which we were suffering. I think it is important to observe, that raising the rate of interest during an efflux of bullion is a measure strictly in conformity to what would be the course of things with a metallic circulation. If with a metallic circulation a drain took place, the circulation would, of course,

be undergoing a contraction; which contraction would necessarily produce a continuous tendency to a rise in the rate of interest; and the Bank administering a paper circulation is strictly conforming to the action of a metallic currency, when she raises the rate of interest during the export of bullion.

2840. You conceive, then, as regards the management of the issues by the Bank, it was a wise measure to raise the rate of interest, since it afforded an additional security for preserving convertibility?—I conceive that raising the rate of interest in 1839 was essential.

2841. What do you think was the effect of the partial repeal of the usury laws during the pressure upon the money market in 1839, as regarded men engaged in trade, commerce, and manufactures?—I apprehend that every approach towards a repeal of the usury laws is a benefit to the community, in every respect; I think that it worked extremely well in the year 1839; that without it, the Bank of England would have been exceedingly embarrassed; that she would have been precluded from the one measure, by which an effort was made on her part to rectify an unnatural and alarming state of things. And also I conceive that a great deal of the comparative firmness with which the trading world sustained the pressure of the year 1839, is fairly attributable to the unrestrained freedom with which capital was allowed to seek its most beneficial employment, and to direct itself to the quarters where it was most wanted.

2842. Independently of the operation of that partial suspension of the usury laws upon the Bank, and looking to its effect upon commercial men, do you think that its operation was decidedly beneficial?—I have no doubt of it, whatever.

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2847. How far do you think it would be a wise course for the Bank to pursue, that with a view to its stopping a drain of gold, whenever a drain shall arise, it should depend on foreign securities, which it might buy when exchanges were favourable, and sell when they were adverse?—I do not know that I am a very competent judge upon that point, but I confess the leaning of my mind is rather adverse to that plan.

2848. Will you state why?—The plan is certainly unobjectionable upon principle. It would be a measure tantamount to holding the same quantity of gold, paying interest; it would be a commodity which the Bank of England would have the means of exporting for sale, and against the proceeds of which it might draw, whenever the state of the trade of the country led to an excess of imports, and a deficiency of exports; but on the other hand, if the Bank adopts that plan, she will necessarily become a very powerful actor, at her own discretion, upon the exchanges; and the knowledge that so powerful an actor is hanging over the exchanges, I think may be calculated to disturb the ordinary action of the exchange dealers and to prevent their taking that course which, under ordinary circumstances, they would take; and I think it a matter worthy at least of serious consideration, whether greater evil might not arise in that way than the good which would be obtained by the holding of securities on the part of the Bank. In addition to that, it seems to me to be in violation of the great principle of the rule of 1832, which was that of leaving the Bank to be acted upon, and not acting itself; I think that, as far as it can be carried out, a very useful principle, with reference to the Bank, and this plan of holding foreign securities seems to me to be of directly an opposite character.

2849. In an extreme case, such as took place in 1839, do you think that the Bank was justified in the course they adopted, of obtaining credit upon houses at Paris and Hamburgh upon which they drew bills, selling those bills upon the English Exchange?—I think, under the circumstances of the year 1839, the Bank was fully warranted in that course, and that it was a very beneficial one; but at the same time I should be very sorry to see the managers of the paper circulation of the country encouraged to look to that as a constant practice; I had much rather that the safety of our paper circulation was sought from its legitimate source, proper contraction, at the proper time, and to the proper extent, than that we should rely upon an expedient of this nature, which is only a last resource in extreme difficulty.

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2855. Is the Bank of England under the necessity of holding a

larger reserve than it otherwise would hold, from its obligation to meet the demands of all the issuing bodies?—Undoubtedly the duty of holding all the bullion requisite to sustain the whole paper currency of the country devolves, according to the present system, exclusively upon the Bank of England.

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2866. Could the end of banks of issue be attained without danger to convertibility, by a free competition among the issuing banks, accompanied with any of those checks against over-issue which you have recommended?—That raises of course the whole question of competition of issues; my own view of the matter is, that competition is a principle most properly applicable to banking business, as to most other businesses; but that it is not a principle applicable to what I should rather call the privilege than the business of issue. Issuing paper I always consider as the creation of money, and that is a duty or privilege which I think can be better exercised for the benefit of the community by one body, acting under the control of the Legislature or Government, than by trusting it to the principle of competition. The principle upon which the advantage of competition depends, appears to me to be this; that its tendency in all ordinary cases, is to secure to the public the advantage of the greatest quantity of the article, and of the best quality, at the cheapest price, and that all miscalculations with respect to supply that are made by producers, fall in their inconvenient consequences upon the producers, and not upon the public. Now, with regard to paper money, the object that competition secures is not that in securing which the public interest is most concerned; it is not the greatest quantity at the cheapest price which we require, but it is a strict regulation of the quantity by reference to a certain standard; and again, any miscalculations in the proportion of the actual supply, to that which ought to be supplied, fall principally and most extensively on the community at large, (in some degree, undoubtedly, upon the over-issuers,) but the community at large are in that case the greatest sufferers by the miscalculations of the over-issuers. Again, this question of competition at once lets in the consideration which I adverted to in my examination on a former day, as

being laid down in the pamphlet in defence of joint-stock banks and country issues, where it is distinctly stated, that it is not the interest of each separate issuer to conform to that rule which the interest of the community at large requires; that it is, in fact, his interest to violate it. Well, then, look what competition is in this case; competition is to place a great public trust, for such the issue of paper money really is, in the hands of a body, when, by its own statement, it appears that it is the interest of each separate individual of that body to violate the rule upon which the public interest requires they should act, and even if interest does not lead them to violate it, they state that it is impossible for them to attend to that rule. I believe those to be perfectly correct statements; and they appear to me at once to prove that to intrust the issuing of the paper money of the country to the principle of competition, is to intrust it to that which must mismanage the paper money, and must inflict very serious consequences upon the public interest. (*Mr. Loyd then went on to read some statements illustrative of his view of the question from a Report of the French Chamber of Deputies, and from some American pamphlets and letters.*)

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2874. If there were a single issuing body constituted, do you see any objection to the Bank of England becoming a bank of deposit only, and being the Government banker?—No, I see no serious objection to that.

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2876. Would this occasion a fresh distribution of loanable capital, and be calculated to deprive certain districts of local accommodation, which the present system now gives them?—I do not apprehend that it would make any change in those respects, which, looking to permanent results, would be of any consequence whatever. I think the following considerations are rather important, as bearing upon that question; supposing the whole country circulation was annihilated, the proportion which that bears to the whole capital of the country is the proportion of a drop in the ocean, or the proportion which that bears to the aggregate amount of the banking transactions of a year, is something of the same

kind; but we must also remember, that it is not a question of the annihilation of the country circulation. What changes may take place in the substitution of one currency in place of another is a different question; but there is no doubt that whatever alteration you make, there would be a paper currency to a large amount. The whole question at issue is merely the regulation of the fluctuation of the amount of country issues, in conformity with the bullion, or not in conformity with the bullion. Those fluctuations, according to the returns, appear to vary perhaps to the extent of two millions and a half, the aggregate country circulation of England varying from something under 10 millions to something over 12 millions. Now, the only difference it could make to the community at large, is making the oscillations of the paper currency of the country within those limits correspond in point of time to the oscillations of the bullion, instead of, as they now do, occurring at periods not corresponding with the oscillations of the bullion. I confess, that I cannot imagine that the effecting of that object, by judicious means, could affect any district, with regard to the application of the capital of the country, to a degree which could involve any serious consequences.

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2878. But the great and leading objects that you contemplate could be obtained by separating the Bank into two departments, one of which would be a bank of issue?—A separation of the departments of the Bank I consider to be in fact a separation of the two businesses; they may be conducted by the same parties, but yet, the accounts being perfectly distinct, it is in effect a complete separation of the two.

2879. Could the department of issue be conducted, in your opinion, successfully, if the country issuers were left upon the present footing?—It would be quite impossible to impose upon the currency department of the Bank of England a strict adherence to the principle, whilst the country issuers were left as they now are. In the first place, the principle requires that the aggregate paper circulation shall vary as the bullion; if the Bank is not intrusted with a controlling power over the whole paper circulation of the country, of course the principle cannot be strictly

applied to her. In the second place, to control the country issuers would require a special action for that purpose on the part of the Bank, an action not provided for by the principle. In the third place, whilst you are exposed to the possibility of discredit of country issues, whose place must be supplied by an augmentation of the issues of the Bank, that again cannot be made to range in accordance with the principle. Therefore, if a separation in the departments of the Bank of England took place, without any direct control being established over the country issues, of course you must give to the Bank of England, in her currency department, a discretionary power of suspending her obedience to principle, when the state of the country circulation required special interposition.

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22nd July 1840.

2932. (*Mr. Hector*) Dr. Adam Smith lays down the following position regarding convertible paper money, viz.:—

'Paper money consisting of bank notes, issued by people of undoubted credit, payable on demand, without any condition, and in fact always readily paid as soon as presented, is in every respect equal in value to gold and silver, when the same gold and silver money can at any time be had for it. Whatever is either bought or sold for such paper must necessarily be bought and sold as cheap as it could have been for gold and silver.' It will follow from that position regarding such paper money, that it cannot exist in a state of depreciation on account of its immediate and certain convertibility; will you demonstrate to the Committee the contrary of this position, as laid down in your answer to question 2751?—I am sure the Committee will feel that, in answering this question, I am called upon to go into a discussion, which, if I am to answer the question satisfactorily to my own mind, will involve me in a long essay; I will, however, put it as briefly as I possibly can. We all know that in the investigation of any scientific subject, as the human mind proceeds, it arrives at the consideration of more and more minute points in the question; that truth has been exemplified in practice in a very striking manner in the discussions upon the subject of currency and of the proper means

of regulating paper money. The first great question regarding paper money was the means of preserving it of an equal value with metallic money; and the first great step taken towards that object, was the step taken by the Bill of 1819, a step and a measure which never can be spoken of in terms too high, namely, the declaring the perpetual and constant convertibility of the notes into coin. The constant convertibility however was only a means to an end; the end to be obtained was this: the constant equality of value between the paper currency and the coin; and the constant equality was even only a means to another end, or, rather, the two things were perhaps to be considered as identical, viz. that the paper money should perform, neither more nor less, the same functions in sustaining credit, uphold the same extent of transactions, and maintain the same range of prices which would be sustained and upheld and maintained at each given time if the currency of the country were metallic; that is the real meaning and the real spirit of the convertibility of notes. To that point we reached in the year 1819. Since that period, a close investigation of the events which have occurred has led observant and reflecting minds to perceive, that the constant right of converting your paper into gold does not secure with sufficient efficiency those which are really the ultimate ends and objects for which that convertibility was established. They have found, or conceived that they have found, evidence that an extent of transactions and a range of prices may be maintained for limited periods under a convertible paper currency, which would not be maintained if that currency was really a metallic currency; and that, to obviate that evil, a further regulation is necessary, which shall be sufficient to preserve the notes at all times precisely at that amount which the metallic currency would be, and that, consequently, a depreciation in a certain sense of the word, of a temporary nature, may take place and be compatible with convertibility. This is a result to which intelligent persons have arrived, not only in this country, but also in the other country to which our attention has been directed, viz., the United States. I do not think it is possible to quote, at the present moment, any authority upon questions of currency more justly deserving of attention than that of the American senator, Mr. Webster. I hold

in my hand his speech upon the Sub-Treasury Bill delivered on the 12th of March, 1838; I will read one sentence of it as strikingly bearing upon this point: 'I say, sir, a convertible paper currency; for I lay it down as an unquestionable truth, that no paper can be made equal and kept equal to gold and silver, but such as is convertible into gold and silver on demand; but I have gone further, and still go further than this, and I contend that even convertibility, though itself indispensable, is not a certain and unfailing ground of reliance. There is a liability to excessive issues of paper, even while paper is convertible at will; of this there can be no doubt. Where then shall a regulator be found? What principle of prevention may we rely on!' I do not know that I need read on, but it goes on to the further topic of the remedy and prevention.

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2953. (*Sir Robert Peel*) Do not you think that the circulation since 1819, consisting partly of gold and partly of paper convertible into gold, has kept the whole mass of circulation much more steady in its value than it would have been if the paper had not been convertible into gold?—I have no doubt whatever that the establishment of convertibility in 1819, has tended to keep the fluctuation of the amount, and therefore of the value, of the currency of the country within narrower limits than they would have been kept within if there had been no such Act in existence.

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2969. (*Mr. Attwood*) You have stated that the tendency of the Act of 1819 was to correct variations in prices; but in spite of that tendency, has any material improvement in the variations of prices taken place since that period?—I stated that the tendency of the Act of 1819 was to correct any variations in prices which might arise directly from the mismanagement of the paper circulation of the country; and I believe that that Act has, to a considerable extent, accomplished that result; and that, to whatever extent it has failed to accomplish that result, that has been because the letter, more than the spirit, of that Act has been adhered to; that is to say, we have relied upon convertibility only, without paying sufficient attention to the secondary point,

namely, the maintenance at every moment of paper money equal in amount to what the metallic money would be.

2970. The question is entirely as to the fact; has the country been better protected against extensive variations in prices since the Act of 1819 than it formerly was?—I really am extremely sorry to trouble the Committee with a repetition of distinctions which have been drawn over and over again; I cannot answer that question without going into the distinction between that class of fluctuation in prices which is connected with mismanagement of the circulation, and that which is connected with the general monetary and commercial state of the country. The Act of 1819 has nothing whatever to do with the latter; it deals with the former; it has dealt with the former, in my judgment, successfully, but not with perfect success, because the letter and not the spirit of the Act has been enforced.

2971. Will you confine yourself to the question, as to the fact of the fluctuations of prices, without embarrassing yourself with the question how they have arisen, and say whether against any excessive fluctuations of prices, however originating, the country has possessed any greater security, in effect, since the Act of 1819 than it experienced before?—Excessive fluctuations in prices, I apprehend, mean fluctuations in prices which ought not to take place.

2972. It does not mean that; it means excessive fluctuations from high to low, and from low to high, leaving out of the question, whether they ought or ought not to take place?—Again I am asked about facts about which I have no knowledge beyond that which the questioner has, and beyond that which every member of the Committee has. I can only state what I have stated before, that fluctuations of prices have taken place since 1819, and that fluctuations of prices had taken place previously to 1819; I have before stated that I do not see, between the comparative fluctuations of prices before and after 1819, any clear and marked distinctions; and I have before stated that which I must always introduce into my answers to questions of this nature, namely, that that portion of the fluctuations of prices which arises from the mismanagement of the circulation, has been corrected by the

Bill of 1819 to a great degree, and would have been completely corrected, if the spirit instead of the letter had been acted up to.

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2982. (*Mr. Hector*) With reference to your opinion, that the local circulation of the country should conform to the stock of bullion in the Bank of England, do you mean to say, as an example, that the exportation of bullion, arising from the sale of foreign securities, should diminish the local circulation of the agricultural county of Norfolk?—Perhaps the best mode of answering the question is by making as short a statement as I possibly can of my general view of the principles upon which a paper currency ought to be regulated. I conceive that the whole paper currency of the country should conform in its fluctuations to the fluctuations of the bullion; and when I see that paper currency divided into two great classes, I very naturally assume, in general reasoning, that each of those classes should conform rateably to the duty that falls upon the aggregate; but when the division is carried further into minute points, it certainly does not necessarily follow that, because the aggregate paper circulation of the country requires a reduction, in consequence of the export of bullion, that, therefore, a *pro rata* reduction must take place in any given point. It is undoubtedly perfectly possible that even an increase might take place at that particular moment, at that particular point; that is quite unascertainable under our present system; and if I wanted to find more grounds of objection to the present system than have already been adverted to, I should take that as one of them. It is impossible to say, under our present system, when a reduction of the aggregate paper circulation is required by an export of gold, whether an increase of paper circulation in a particular town by a bank existing in that particular town, is, or is not, a proper increase. There are no means of positively ascertaining that point; all that can be said is, that an efflux of gold requires a reduction in the aggregate paper circulation of the country, and in the absence of any specific proof at the time, with reference to any particular place, it is necessarily assumed that reduction ought to be rateable in its proportion.

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3002. You object to the management by the country banks of their issues, upon the sole ground of the fluctuations in those issues, as stated in the printed returns, not being in conformity with the fluctuations as shown by the printed returns in the issues of the Bank of England; have you any knowledge of the actual circumstances which occasioned those fluctuations?—I simply object to those fluctuations, upon the ground that they do not correspond in any way with the fluctuations in the bullion; and therefore they are not those fluctuations which we have a right to infer would take place with a metallic currency; I have no further knowledge respecting them.

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23rd July 1840.

3076. (*Mr. Attwood*) Do not the laws which regulate the amount of precious metals in this country, ultimately determine the amount of paper money payable on demand, circulated in this country, under the system which has hitherto been adopted?—I apprehend that that was the very principle of establishing the convertibility of the paper notes, that the laws, which distribute the precious metals throughout the world, should, in assigning a certain quantity of the precious metals to this country, ultimately determine the amount of paper money of this country; and I apprehend that the question upon which this Committee is now sitting, and to which its inquiry has been directed, is, the question of the extent and effects of temporary deviations of the amount of the paper money from that which would be its amount were it strictly regulated by the amount of the precious metals; that the paper money has, in the main, conformed to the amount of the precious metals, is true; otherwise its convertibility would long since have been gone; but the question is, whether it has been subject to temporary deviations from that conformity, of a nature so menacing, and so seriously endangering convertibility, as to call upon the country to take the best means of obviating that danger for the future.

3077. You have spoken of the system of paper money in this country being conducted with many deviations from sound principles; can this country, or can any country, by means of these

deviations, prevent the amount of its paper money payable on demand from being permanently governed by the laws which distribute to that country its proper proportion of the precious metals?—So long as the paper notes really are paid on demand, of course they must conform to that amount which the laws, regulating the precious metals, assign to that country; but the question really before us is this; under the existing system the deviations from the state requisite to be maintained for the certain preservation of convertibility have been such, that reflecting persons, and indeed the whole community, have been seriously apprehensive that payment in gold on demand would cease; and therefore we are now dealing, not with an evil that has actually occurred, but with a danger of the occurrence of that evil which has been of the most imminent and alarming kind.

3078. Then, must not the amount of bills of exchange be permanently determined by the same laws, other things remaining unchanged?—I have many difficulties in answering these questions, and one difficulty arises from not being sure that we always carry with us the full consequences of the assumption contained in the words ' other things remaining unchanged '; I can only re-state what I have before stated, namely, that a certain law distributes the precious metals of the world, in certain proportions, to the different countries of the world, and that it is the business of a well-regulated paper-money system, to see that the paper-money is in amount equal to what the precious metals, according to that law, would be. When we come to the question of bills of exchange, there are a variety of other circumstances which affect the amount of them. Under the supposed regulation of paper money, there will, undoubtedly, be fluctuations in prices, fluctuations in the state of speculation, stagnation or activity in the commercial affairs of the country; all of which circumstances will produce their effects upon the amount and number of bills of exchange, and ought not to produce the same effects upon the paper circulation.

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3085. (*Mr. Ellice*) Assuming the currency to be established upon the principle which you have stated to be the only safe one, that

of regulating the fluctuations of paper by the fluctuations in the amount of bullion, what deposit of bullion in proportion to the issue of paper, either in one bank of issue, or in the several Banks of England, Scotland and Ireland, to which the issue of paper might be committed, would you consider sufficient to insure permanent convertibility?—Of course, the amount of bullion which would be requisite to preserve the power of paying in specie at all times and under all circumstances, under a proper management of the paper circulation, must be a matter to be ascertained by experience, and which cannot be determined by principle. At present we are so wide from the application of the strict principle of management assumed, that I do not think our experience is sufficient to enable us to answer the question with any degree of confidence; all that can be said is, that you must begin that system with a sufficient reserve of bullion; and I should have no hesitation whatever in saying, that whatever reserve of bullion has under the existing system been found to be sufficient, would be found to be amply sufficient under the new system proposed; and I should fully anticipate that our experience would soon justify us in reducing that amount.

3086. What has that sufficient amount of bullion in your opinion been at any one time, proportionately to the whole issue of paper money in Great Britain?—I should say that if you took it at one-third, at a period of full currency, you would have a very ample amount of bullion; but I am speaking rather loosely upon the point.

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3101. (*Mr. Hume*) Are not the Bank of England notes, deposited by you in the Bank of England, as much at your disposal as if they were in your own banking-house?—No.

3102. What is the difference?—In the one case I am sure I can have them when I like, and in the other case I have only a general belief that I can have them when I like.

3103. Have you known any instance where an application has been made by you to the Bank of England to draw out your notes, and you were disappointed?—No; but I am sure that if all who had notes in the Bank of England, were to apply simultaneously, that would happen.

3104. Do you not keep constantly a certain amount of bank notes in your own banking-house?—Not a certain amount; some amount.

3105. Do you not keep also an amount in the Bank of England?—Yes.

3106. Are you aware that, in the official return of the Bank of England, the notes deposited by you appear as deposits?—Yes.

3107. Are you aware that the notes that are kept in your own banking-house, appear, in that official return, as circulation?—Yes.

3108. Does the circumstance, of a certain amount of bank notes belonging to you being returned by the Bank of England, as deposits, alter their nature, or change their value?—It does.

3109. Why?—Deposit business is a mode of economizing the use of the circulation; by means of resorting to that process, a greater amount of obligations or transactions can be adjusted with a smaller amount of circulating medium than could otherwise take place. The amount of deposits which the Bank of England, or any other bank, holds, is worked by that concern with a certain reserve of bank notes, which reserve is measured in its extent by what that concern considers to be the average quantity of demand that will be made upon it. By that means, that reserve is enabled to perform an amount of business which, without the process of banking deposit business, it would have required an amount of circulation equal to the whole deposits to have performed. By that means, undoubtedly, an economic use of the circulation is effected; but an economic use of the circulation is not itself circulation. When you put the question, are not the bank notes in my till, and the bank notes deposited by me in the hands of the Bank of England, equally at my disposal, it is undoubtedly true that they are; but it is true only with respect to the bank notes which I have in the Bank of England, upon the supposition that all persons, similarly circumstanced with myself, do not act simultaneously. The Bank of England, or any other banker, can clearly pay his deposits only to the extent of the banking reserves in his till. The banking reserve in his till is the money with which that business is worked, and constitutes the amount of the

circulation. It is to mistake the amount of business done for the instrument with which it is done, to call deposits circulation. Deposits are the business worked; the reserve in the banking till is the instrument with which they are worked; and the business by which your instrument is worked, is the circulation or money of the country.

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3112. Suppose you have two places in your own premises in which you lock up your bank notes, one-half in one room, and another half in the other; will the calling one 'circulation' and the other 'deposits' make any difference in their value or the uses to which you could apply them?—No; mere difference of name can make no difference in substance.

3113. If your money, then, be a million sterling, and half of it be retained in your own premises, and another half be deposited in the Bank of England, will the value of the whole be in any degree lessened?—Provided the portion deposited in the Bank of England remain in precisely the same state in which that portion which is deposited in my own till remains, there is no difference.

3114. Have you any doubt that money placed in the Bank of England remains as safe as in your own premises?—'Safe' does not include all that is involved in my answer.

3115. What more, then, is involved in your answer?—By remaining precisely in the same state, I mean that that portion of my money which is placed in the Bank, remains in the condition of money in the Bank till, precisely as it remains in the condition of money in my own till.

3116. In that case, are not both sums of equal value?—Yes.

3117. Does the calling one 'deposit' and the other 'circulation', make any variation, then?—No; no variation can be made; by calling a thing by another name, you cannot thereby alter its nature; and so long as the deposit in the bank is precisely identical with the deposit in my own till, it is precisely the same; but the question turns altogether upon this fact; my deposit in the Bank of England does not remain in the form of money in the Bank; a large portion of it is re-invested, and the Bank dispossesses itself of that portion.

3118. Though the Bank may dispossess itself, by an investment, of a portion of your money, is not the Bank liable, and would not the Bank pay you, on demand, the amount you have deposited, whatever use they have made of it?—Undoubtedly the Bank is liable to pay; but then the moment we assume, on the part of the Bank, mere liability to pay, and not an actual retention of the money for that purpose, my connexion with the Bank assumes the form of a debt owing.

Evidence of VINCENT STUCKEY, Esq., before the Select Committee of the House of Commons on Banks of Issue, 1841.

(Parliamentary Papers, 1841, vol. v.)

12th March 1841, CHARLES WOOD, Esq., in the Chair.

454. (*Chairman*) I believe you have been the manager of a joint stock bank in Somersetshire for some years?—Yes, I have.

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456. Will you state the principle on which you manage your issues?—Very few of our issues are made by discount; if we discount a bill at Bristol, for instance, which is the chief place in our neighbourhood where bills are presented the amount is paid into another bank, not in our own notes; therefore very few of our issues are made by discount; still fewer are made by what I should call payment of deposits, on which I have observed that some stress has been laid by some gentlemen who have been examined; now our issues are very little increased by payment of deposits; if a man takes out a deposit, it is ten to one but that the amount is paid in London; we seldom or ever think of paying a deposit by our own notes, because it goes out in a large sum and is immediately sent to another bank; therefore, that is not the way that our issues in general are made; they are made in this way in a great measure: The chief part of our circulation is what I should call agricultural circulation; a farmer comes to London, and sells his oxen at Christmas, we will say, for £500 or £600, which he pays into our bankers in London on Monday; on Tuesday, very likely, he comes to us for the amount, and we

give him a certain quantity of our notes; but we have even lessened that lately, and for this reason, our manager asks the farmer, if he asks for a large sum of £500 or £600, what he is going to do with it; he says, perhaps, 'I am going to Exeter to buy stock, which will replace those that I sold yesterday'; then the manager asks him, 'Would it not be just as well for you to draw a check upon us before you go for perhaps £250, and take the other in notes?' The reason we recommend them to draw a check is to save the circulation, because the moment our notes get out of the district, they go into another bank, and therefore the check is a simple thing; instead of sending the notes to London, the check is sent to one of our departments and immediately paid; that is a mode which has been introduced lately very much. Another mode of saving the circulation is this: Salisbury is a very large place for the sale of cattle in the West of England; our farmers go there to sell their cattle to Portsmouth butchers and other persons; till within the last four years parties used to bring back the notes of that part of the country; now we have opened an account with a Salisbury banker, and they pay the Salisbury notes in there; a party pays in a note on Monday and gets a receipt for it, and it comes to us on Tuesday; I only mention that to show the mode we have adopted to save the circulation; we give this man who has brought the order from Salisbury or London a considerable quantity of our notes, for this reason, that he is going into our district to purchase other cattle; therefore I consider that to be a fair absorbent circulation.

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460. Will you state what, in your opinion, determines the amount of the country circulation generally from time to time?—That is a very difficult question for any one to answer; I should say, the demand for it; but that demand must be regulated by looking at other matters; I am one of those that look at the exchanges and at the standard of value; I have a book before me in which I make entries upon the subject; but I must explain that; if I said that I was able to regulate my country issues by the exchanges, that would be a very incorrect answer; I cannot do any such thing; but I do look at the exchanges; the first thing that I enter in this

book is the price of the precious metals, and then the exchanges, in order that I may be aware what the gentlemen who have the management of the circulation of London are doing; if they are applying the screw, I must be doubly prudent; I see that, of course.

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462. Do I understand you to say, that with regard to your own issues, you wait till an effect is produced upon you by the operation of the Bank of England, or that you yourself take any measures of greater or less caution with regard to your own issues before you are acted upon by the contraction in London?—I take the measures immediately, before I am acted upon; I look and see what the exchanges are, and, as I said before, the price of precious metals, and if I see that they are very much against the country, and that it is necessary to apply the screw, I get a circular letter written to all my managers, stating that they must be very cautious in their advances, without giving them any particular reason, and when we meet they ask me the reason; I explain to them the reason, that I see the money market is in an uncomfortable state, and therefore that I think we must keep ourselves as guarded as we possibly can, if a farmer the same day comes in to borrow £200, (which happens every day), I do not say any thing to him about the exchanges, but I lend him the £200, if he is going to purchase cattle; but my observation applies to the general money market; we carry on business in all parts of the county; only one county, it is true, but having in it Bristol and Bath; Bristol, too, is a commercial place, and there we are obliged to look to the money market with the greatest attention.

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477. Do you conceive, that generally speaking, there is any insuperable difficulty in country bankers exercising such a controul over their own issues as to reduce them to some extent, during a period of adverse foreign exchanges?—I really do not see how that is to be done.

478. Then what is the practical effect of the regard to foreign exchanges which you think all country bankers ought to pay?—The practical effect is to make them more cautious and circum-

spect in the management of their money transactions; but I should not state, that in the agricultural districts the circulation would be altered by the foreign exchanges.

479. Do you conceive that although the country bankers ought to pay regard to the state of the foreign exchanges, it is not in their power to bring that regard into practical effect, by reducing the amount of their issues, during the period of adverse exchanges?—I do not see how it could be done.

480. Will, then, the regard which you recommend they should pay to the state of the foreign exchanges, produce any practical effect whatever upon their issues?—Yes; it would produce effect in the management of their monied concerns.

481. What practical effect would it produce upon their issues?—Very little; my own opinion is, that country issues have very little to do with exchanges.

482. Would the regard which you recommend to the foreign exchanges produce any effect upon their issues?—Very little; it would produce some effect upon the management of their monied concerns.

483. (*Sir T. Fremantle*) Upon their liabilities?—Yes.

484. But comparatively little upon their issues?—Yes, particularly in the agricultural parts of the country.

485. Upon what do you think the issues of country bankers depend?—More on the state of agriculture than anything else; when the landed interest is in a comfortable state I consider the issues to be increased. I will take the liberty of stating, that the advances of our house to agriculturalists from the month of March (at this time) to October are generally from £40,000 to £50,000, if you take the whole county. Every gentleman here knows that at that time farmers are generally poor; they have sold every thing off; they want money for the seed time and to buy cattle; and ours having been more an agricultural bank than anything else, and a great portion of it being agricultural now, we assist the farmers in that way; the money advanced at that season is generally replaced in the winter. At one season of the year we have their money, at another season they have ours, and I always

consider that legitimate banking; if it were not for that, I am sure their rent would not be paid.

486. (*Chairman*) Do you find that those advances increase your circulation?—Yes.

487. At what period of the year is your circulation highest?—In the winter. The advances are made in the spring, but that is a circulation that does not stay out much; but in winter, when the farmer comes home with all his produce, he takes our circulation and it is absorbed in the country.

488. You do not, then, find that the advances which you make for the benefit of the agricultural interest produce, at the time of those advances, any increase of your circulation?—Not so much increase as you would expect by the advances made, because the money so issued is taken out of our district.

489. But if the advances are made in the spring, and are repaid in the autumn, and your circulation is highest in the winter, does it not follow that the assistance which you in that manner give to agriculture does not increase the amount of your circulation?—Yes, it does follow, of course; at the same time, it is issued in the spring, but it comes back again.

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501. Will you state how you are affected by foreign exchanges?—I think the London market is affected by them, and therefore I am affected; I naturally know that if my deposits are withdrawn, and any demand is made upon me, I must sell my securities; therefore I look to the foreign exchanges, in order to ascertain how the money market is, that I may know what securities I shall dispose of.

502. What effect has that upon your issues?—It makes us prudent and cautious; it has no other effect.

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524. Suppose the case of an adverse foreign exchange, when, according to your own opinion, the paper circulation of the country ought to be reduced, would you, on a depositor asking for the payment of a deposit in notes, be at all guided by the circumstance of the foreign exchanges, as to whether you paid

that deposit in Bank of England notes, or in your own local notes?—I admit that I should not be guided by the foreign exchanges, but I should be guided by knowing where the deposit money was to go to.

525. (*Sir T. Fremantle*) You have stated that when you observe gold going out of the country, and money becoming tight in London, you have been in the habit of issuing directions to your different branches, to be more circumspect in the advances they make; has the effect of that been practically to diminish the amount of your notes in circulation in those districts?—I do not think it has; I am not aware that it has.

526. What has the effect been?—To make them more cautious in their advances, keeping our resources more within our own command; instead of discounting a bill, which we should discount under some circumstances, we have refused it; and instead of advancing £1,000 or £2,000 perhaps, we have desired the person to take £500; therefore we keep our banking capital and banking resources more under our own command.

527. But are you prepared to say that the circulation of your own notes has not been affected by that course of conduct?—I am not aware that it has.

528. (*Chairman*) Is then your only reason for paying attention to the foreign exchanges, not in any way to regulate your issues, but to keep your capital more within your own control?—It is to do both, because I know if the Bank of England apply the screw, it must affect our issues in time; it does not affect them immediately; but it makes money scarce, and that affects us all more or less.

529. In what way does it affect your issues?—It is a difficult thing to say how it operates immediately; but if I see that the foreign exchanges continue long against this country, I am prepared to expect a diminution in our issues, because in all probability the prices of articles of necessity will be lowered, provisions and so on.

530. Is then the only effect which an adverse foreign exchange produces upon your own issues, either through the means of what

you have called the Bank of England applying the screw, or a previous reduction of prices?—I am not aware that it acts in any other way but those two.

531. (*Mr. Chancellor of the Exchequer*) Are you entirely passive with regard to your issues?—Entirely passive; we do not push them.

532. (*Chairman*) You have no guide in fact as to the regulation of your issues, except the demand of your customers for circulation?—No, except that we do look at the foreign exchanges, and I produce my book to show it; there is first entered the price of gold, and then the foreign exchanges, and I send round to the managers a copy of the entry.

533. What is the practical effect which you anticipate from those entries?—To make all that are concerned in the operations of the bank prudent and cautious; that is the practical effect that I meant it should have.

534. (*Sir Robert Peel*) You said there were occasions on which you refused to discount a bill, which under other circumstances you would be inclined to discount?—Yes.

535. When application was made for the advance of £1,000, you advised the party to be contented with £500?—Yes, exactly so. This is an extract from the minutes of a Quarterly Meeting of Directors held at Taunton, 23rd of October 1839: 'Notwithstanding the tightness and anxieties of the money market, the resources of the company continue to be most ample, and the finance committee have been very vigilant and attentive to the state of the money market and the exchanges.' I read this to show that I do look at the exchanges.

536. (*Chairman*) Do you conceive it to be impossible that the country circulation generally should be regulated in general conformity with the foreign exchanges?—I do not see that it is possible, any further than under the circumstances I have before stated.

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558. (*Mr. Attwood*) Should you have any objection to mention loosely what proportion your circulation bears to the whole of

your deposits?—Not at all; our deposits are more than the whole of our circulation.

559. Very materially?—Not in a material degree.

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575. (*Chairman*) Can you state more accurately what proportion the amount of your circulation bears to the amount of your deposits?—I observe that our deposits are half as much again as our circulation.

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619. (*Mr. Warburton*) There is a considerable fluctuation in the demand for money, depending upon the season of the year?—There is.

620–1. Is there not also a considerable fluctuation in the abundance of money in the market of London?—Yes.

622. Depending upon the payment of dividends, and other causes?—Yes.

623. How is this inequality in the demand for money met by the London bankers?—It is met by the Bank of England very properly, in my judgment, giving facilities for the issue of paper at a time when money is locked up. I recollect formerly it was a very pressing time just before the dividends were paid.

624. Is it not the case that the London bankers economise and hoard money at a time when money is in plenty, in order to enable them to meet payments when the market is rather tight?—I daresay that is the case.

625. Would not this be the course adopted by the country bankers, if there were any restriction put upon their issues, by making them conform more to the exchanges; would not the inequality of the demand for money in the country be met in somewhat the same way by the bankers economising money at one time, in order that they might be more liberal in their issues when the market was tight?—It is very possible that it might.

626. Is not that the obvious course that any individual pursues if he knows that he shall have a large demand for money at one time, that he will economise it when it is plentiful in order to meet a large demand that will be made at another time?—Yes.

627. Do not you apprehend that if the country currencies were made to conform to the exchanges, this would be the way in which the country bankers would meet the fluctuations of the season?—It is possible it might be; the country bankers are kept constantly in check by daily exchanges going on with each other; we have a settling every day in the week with some banker or other in our neighbourhood, so that the moment our notes go out of the district and go into another, we immediately pay the difference in London; there is a very respectable bank at Bridport; we exchange with them at Chard; they have an establishment there; every thing we receive of theirs goes to Chard, and what they receive of ours goes there also, and we do the same at Bristol; therefore the country banker has not the power of increasing his issues, on account of the exchanges which are constantly and daily taking place.

628. Is not the tightness of money in the London market at a period when gold is going out, inseparable from the plan of maintaining the currency convertible?—I think it is.

Evidence of JOHN WILLIAM GILBART, Esq., before the Select Committee of the House of Commons on Banks of Issue, 1841.

19th March 1841.

(CHARLES WOOD, Esq., in the Chair.)

(Parliamentary Papers, 1841, vol. v.)

902. (*Chairman*) I believe you are the general manager of the London and Westminster Bank?—I am.

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911. Will you explain the principles which, in your opinion, regulate the circulation of country banks?—If the Committee will allow me I will state, in the first place, that I attend here at the

request of the Joint Stock Bank Committee; a committee which we call the Committee of Deputies. It was formed a few years ago, when it was ascertained that the fact of a clergyman being a member of a joint stock bank rendered it an illegal association. At that time a circular was addressed to all the joint stock banks, requesting them to send a deputy from each, and from that meeting a committee was appointed, usually called the Committee of Deputies. This committee has existed, but has not been very active, from that time; but after the appointment of the Committee on Banks of Issue a general meeting of deputies was again called. I have the resolutions passed at that meeting, and if agreeable to the Committee, I will read them, in order to show to what extent I speak the sentiments of the country banks; for as I have written various works upon banking, and may be examined upon those works, I should wish to state, that where I am not strictly authorized by the country banks, the opinions I express are to be regarded as my own personal opinions. These are the resolutions: 'At a general meeting of the deputies from the joint stock banks of England, Wales, and Ireland, held at the London Coffee-house, Ludgate-hill, on Thursday, the 4th June 1840, the Right honourable Thomas Peregrine Courtenay in the chair, it was resolved unanimously,—First, That this meeting have great pleasure in receiving and adopting the report which has now been read, and they present their warmest thanks to the committee for the constant attention they have manifested to the interest of the joint stock banks:—Second, That the present mode of conducting the circulation of the country, by means of numerous issuers, controlled by an effective system of local exchanges, is well adapted to the state of the community, and powerfully promotes the agriculture, trade, mining and general industry of the nation, and that equal advantages could not be obtained by one bank of issue:—Third, That the standing committee of deputies appointed at the general meeting of the 23d November 1838 be continued, with power from time to time to add to their numbers; and that such committee do use every exertion to obtain those amendments in the law which were enumerated in a letter of the committee addressed to Lord Melbourne, on the 30th January 1839, and such other amendments as

may be conducive to the interests of joint stock banks:—Fourth, That this meeting approves the nomination of Mr. Stuckey and Mr. Gilbart to be examined as witnesses by the Parliamentary Committee on behalf of the joint stock banks; and they request the Committee to exercise their own judgment and discretion in selecting such other witnesses as may be necessary:—Fifth, That all persons interested in joint stock banks be requested to communicate to those Members of Parliament with whom they are acquainted, the views entertained by this meeting, as to those amendments of the law which are considered desirable, and the prejudicial effects that would result from the establishment of one bank of issue throughout the country:—Sixth, That copies of these resolutions be sent to Lord Melbourne, the Chancellor of the Exchequer, the President of the Board of Trade, and to the Chairman and Members of the Parliamentary Committee:—Seventh, That the cordial thanks of this meeting be presented to the Right honourable Thomas Peregrine Courtenay for his able and courteous conduct in the chair. *Oliver Vile*, honorary secretary.' The letter to Lord Melbourne, which is referred to in the third resolution, it is perhaps hardly necessary to put in, as it relates to the law of partnership and other matters not necessarily connected with issue. I think the laws which regulate the issues of country banks are derived from the state of trade in the respective districts in which those banks are established, and I think those laws must be uniform in their operation, because there are uniform fluctuations in each year. I have endeavoured to ascertain those laws by considering the highest and lowest points of the fluctuation of the country circulation. I find that the highest point of fluctuation in each year of the circulation of country banks is the end of April, and that the lowest point in each year is the end of August; those two periods divide the year into three equal parts; I have constructed a table, which shows the amount of the country circulation on the last Saturday of April, August and December from the year 1834 to 1839 inclusive, from which it appears that the highest amount of circulation is in April, and the lowest in August; proving that the country circulation is governed by local causes, and cannot be regulated by the foreign exchanges.

912. From what data is that table compiled?—It is formed from Appendixes No. 29 and 30 attached to the Report published by this Committee last year. The general law is, that the general circulation always makes one circuit in the year, being at its lowest point in August, and advancing to December, and continuing to advance to its highest point in the month of April, and then descending to its lowest point in August. In this period of six years there are two exceptions to the rule with regard to advances from the end of August to December, and those two exceptions are the years 1836 and 1839; those were two years of pressure; and in those two years the circulation, instead of advancing from August, as it would have done according to the ordinary law, declined; which shows that the country bankers could not increase their circulation to relieve themselves from the pressure, but were obliged, in consequence of the pressure, to let the circulation decline. I have strictly taken all those figures from the Report published by the Committee; therefore I have not gone to 1840, because the Appendix to the Report does not give me that datum.

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914. What are the circumstances which, in your opinion, determine the variation in the amount of the country circulation, not within the same year, but taking corresponding periods of different years?—I should presume the state of trade in the country in those different years.

915. Do you mean by that the state of prices?—Certainly; but if there is an increase of trade without an increase of prices, I consider that more notes will be required to circulate that increased quantity of commodities; if there is an increase of commodities and an increase of prices also, of course you would require a still greater amount of notes.

916. Do you conceive, then, that the amount of the country circulation is regulated by the amount of transactions, including both the quantity of commodities and the price at which they sell?—Precisely; and I should wish now to be allowed to state the differences with regard to the laws which I conceive regulate the circulation of the Bank of England and those which regu-

late the country circulation, in order to show that you cannot, by fixing upon certain periods, come to right conclusions as to the correspondence between the two kinds of circulation.

917. Will you proceed with that statement?—The first circumstance which affects the circulation of the Bank of England, as apart from those laws which affect the country circulation, is the payment of the periodical dividends; those dividends are payable in January, in April, in July, and in October; and from the accounts published by this Committee, I find that the monthly average circulation of those months is generally higher than of the two months which follow; that is, the average circulation of January is higher than either that of February or March; the circulation of April is higher than either that of May or June; the circulation of July is higher than that of August and September; and the circulation of October is higher than that of November and December. There are, however, a few exceptions to this rule; for as the monthly averages are taken from Tuesday, and as the dividends are not paid by the first Tuesday, and sometimes not by the second, the average of the month does not show the average circulation of the month; but there are only six exceptions of this kind in those twenty-four instances. This table is compiled from Appendix, No. 24; it is merely a transcript of the returns of the Bank of England circulation, but differently arranged. It will be perceived from these tables that there is always an increase in the circulation, varying from two millions six hundred thousand to a smaller amount, in consequence of the payment of the dividends; and I put these in, in order to show that you must not expect a corresponding increase in the circulation of country banks; and therefore, in taking periods of comparison between the circulation of the Bank of England and the country banks, you must take this circumstance into account.

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919. Do you find that the diminution of bullion at such times is to any extent?—I think it is about £300,000. I have prepared a table of the amount of bullion in the Bank of England on the first and third Tuesdays in January, April, July and October, in the years 1834 to 1839, which I will put in. It is generally about

£300,000, unless extraordinary causes should operate, such as a drain for gold. Another law which governs the circulation of the Bank of England, but which does not govern the country circulation, is that arising from the purchase and sale of bullion. If the Bank of England purchase bullion with their notes, that must of course increase their circulation; if the Bank of England sell bullion for their notes, that must of course diminish their circulation; and I have before me an account of the bullion which has been bought and sold during the six years; and I must state that this increase and contraction of the circulation of the Bank of England by the purchase and sale of bullion would equally occur if there were only one bank of issue throughout the country, and would thus disturb the proportion which existed between the London circulation and the country circulation. Now, whether you have different banks, or whether you have only one bank, if there is a certain amount of circulation in the country and a certain amount in London, and the Bank of England or the central bank purchase a large amount of bullion in London, that immediately disturbs the proportion that existed between the London circulation and the country circulation; and on the other hand, if there is a demand for bullion to go abroad, and bullion is sold at the central office, that will contract the circulation, and contract it much more than it could be immediately contracted in the country. If, therefore, the liability to a disproportion in amount between the country and the London circulation is a defect in the existing system, it is a defect which the establishment of only one bank of issue will not remedy. Another law which regulates the circulation of the Bank of England, but which cannot operate upon that of the country banks, is the increase and diminution of the circulation of the Bank of England, arising from the purchase and sale of Exchequer bills and Government stock; for if the Bank of England purchases Exchequer bills or Government stock with her notes, it must increase her circulation; if she sells Exchequer bills or Government stock, it must diminish her circulation; and as the country bankers have no power to purchase Exchequer bills or Government stock with their own notes, this must destroy the relative proportion between the circulation of London and of the country. Another law which regulates the cir-

culation of the Bank of England is some cause by which the circulation of the Bank of England is always at its lowest point in December. The circulation of the Bank of England ebbs and flows four times in the year; it is high in January, and descends to March, it rises again in April, and descends to June; it rises again in July, and descends to September; it rises again in October, and descends again to December; but the December point is always the lowest point throughout the year, and this is the case in every year; this is the more extraordinary because always in December there is a large amount of advances made by the Bank of England, and any advance by way of discount or by way of loan must of course have the effect of increasing the circulation; and yet notwithstanding such advances or loans uniformly increase in December, nevertheless the circulation always decreases. There is another circumstance connected with December, that while the circulation is always the lowest in December, the stock of gold in December always increases; and you will find by Appendix 34, taking the average, that in every year, except, I think, one, the monthly average of gold in December is in advance beyond that of the previous month; so that here again is a departure from what some writers consider sound principle; the circulation diminishes while the gold increases. Now, as this occurs uniformly, I think I am justified in saying that there is some law or uniform rule, by which these uniform effects are produced. I do not know that I can give an adequate cause; but one very considerable cause, no doubt, is the payment of the Government duties, which take place at the end of the year; for I find that in every December there is a considerable increase in the public deposits; and I presume that those public deposits arise from the payment of duties, and therefore that the effect of the act of the Directors of the Bank of England in increasing their issues by increased discounts and increased advances, is counteracted by those notes thus issued being paid back in the payment of the public duties.

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921. Do you find that the amount of gold generally increases from the beginning of the quarter towards the end of it?—I have

not said that; but there is a considerable increase of gold at the end of the December quarter, and there is nevertheless a decrease of the circulation. I have a table that will show that in the year 1835 the gold increased from the first week in August to the last week in December from £6,255,000 to £7,718,000, and yet nevertheless the circulation of the Bank of England diminished from £18,085,000 to £16,564,000; again, in 1837 the gold increased from the last week in August from £6,548,000 to £9,795,000; nevertheless between those two periods the circulation decreased from £18,887,000 to £17,026,000. Again, in 1839 the gold increased from August from £2,420,000 to the last week in December to £4,520,000, and yet the circulation decreased from £17,982,000 to £15,800,000. So that I consider it to be a uniform law, that the circulation of the Bank of England should decline in December; I can give no other explanation of that than that which arises from the payment of the public revenues, but I am inclined to believe that there are other causes which produce a depression of trade at that particular time of the year; and I may state now with reference to the payment of the public dividends, that the Bank of England advanced loans in December before the dividends are paid, which loans are discharged after the dividends are paid; and thus the fluctuation in the currency is very considerably diminished from what it otherwise would be. Now, if we had a bank that could not do this, if the currency was issued upon what have been called currency principles, then the Chancellor of the Exchequer must have the whole amount of the January dividends in his strong-room before he could pay those dividends. Out of the circulation of England and Wales, consisting of about £28,000,000, you must collect eight millions and a half; and lock them up in the custody of the Government previously to the payment of the dividends; then you pay out in a mass these eight millions and a half, and that in a state of contracted currency; and thus you go on four times in a year, producing most violent and most extravagant fluctuations; whereas now, by the excellent plan adopted by the Bank of England in issuing her notes before the payment of the dividends by means of loans, which are discharged after the payment of the dividends, notwithstanding you pay eight millions and a half of dividends,

you produce a fluctuation in the currency of only two millions and a half.

922. Do you conceive that any other means could be devised of obviating the variations in the amount of the circulation of the Bank of England to which you have alluded, except the arrangement which at present exists of advances being made by the Bank of England previously to the payment of dividends?—I do not know any other; but I cannot fix limits to possibility.

923. Suppose the payment of the dividends was made more frequently in the year, would not that diminish the inequality?—That would certainly diminish the amount of the inequality.

924. Would it not diminish the difference between the amount of the circulation in the period previous and subsequent to the payment of the dividends?—If you divided the present periods of payment into two periods, and paid eight times in the year, you would have to take only £4,000,000 of the currency out of £28,000,000.

925. Is the inconvenience, then, to which you have alluded, the inevitable consequence of a circulation varying on what you have called currency principles?—By making the payments more frequent you might diminish the amount of the fluctuation.

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931. Have you prepared any tables with a view to illustrate your view of the variation of the general aggregate circulation of the country?—I have a table of the highest and lowest monthly averages of the circulation of the United Kingdom during the years 1834 to 1839 inclusive, and the difference between these two amounts; this is found in Appendix, No. 34; the object of this table is to show that the difference between the highest and lowest circulation of the United Kingdom in any one year is to a very large amount; and therefore, that if you had only one bank of issue instead of having different banks of issue in England, Scotland and Ireland, the circulation could not then be returned to the bank that issued it, as it is upon our present system, and, consequently, during some portion of the year you must have an excess of circulation.

(*The Witness delivered in the Table, which is as follows:*)

(No. 11.)—A TABLE of the HIGHEST and the LOWEST MONTHLY AVERAGES of the CIRCULATION of the UNITED KINGDOM, during the Years 1834, 1835, 1836, 1837, 1838 and 1839, and the Difference between these two Amounts.—(Appendix, No. 34.)

Years	Months	Amount	Difference
1834		£	£
Highest Amount	October	38,136,953	1,792,672
Lowest Amount	December	36,344,281	
1835			
Highest Amount	April	38,078,605	2,478,455
Lowest Amount	September	35,600,150	
1836			
Highest Amount	April	39,540,146	2,786,685
Lowest Amount	June	36,753,461	
1837			
Highest Amount	January	38,549,195	3,672,130
Lowest Amount	June	34,877,065	
1838			
Highest Amount	November	40,495,637	2,637,295
Lowest Amount	March	37,858,342	
1839			
Highest Amount	April	40,544,866	4,770,227
Lowest Amount	December	35,774,639	

Now, what I wish to show by this is, that if the exchanges were at par, and you have only one bank of issue, when you had issued those notes, if the trade was to decline, so that you did not want the notes, those notes could not be returned to the issuing bank, because, being issued upon what are called currency principles, not banking principles, you could only return those notes to the bank in exchange for gold; and if you returned them in exchange for gold, and put the gold in circulation, your currency would be just as much in excess as before; consequently, during some months of the year you must have a great abundance of money, which would reduce the rate of interest, excite speculation, and lead to foreign investments; and if, by those means, the exchanges were turned, and a portion of the gold was then taken away, being given out by the Bank in exchange for notes,

the exchanges might be turned against you at the very time when the revolutions of trade required the currency to be increased.

932. What do you mean by the expression ' currency principles '?—I mean by the phrase ' currency principles ', a bank which shall do nothing else but issue notes for gold, and gold for notes.

933. What do you mean by the expression ' banking principles '?—I mean by ' banking principles ', notes that are issued in the repayment of deposits, or in the discount of bills, or in the making of loans; at the same time, I would state, that I merely used those words in the sense in which they are used by the writers who advocate those peculiar principles, which they call currency principles; I do not at all admit that those are the correct principles upon which the currency should be administered.

934. Is there anything approaching to uniformity in the periods of variation of the aggregate circulation?—No, no uniformity at all.

935. You have not been able to discover what you have called the laws of circulation, as applicable to the aggregate circulation of the country?—No, there is no law.

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941. What is the general conclusion which you propose to draw from the tables you have put in?—The general conclusion I will draw is, that the Bank of England is governed by certain laws which do not apply to the country circulation; that the country circulation of England is also governed by laws peculiar to itself; that the circulation of Ireland is also governed by laws peculiar to itself; that the circulation of Scotland is also governed by laws peculiar to itself; that those respective circulations are all governed by uniform laws, as is shown by their arriving at nearly the same point at the same period of the year; and therefore that you cannot introduce any system by which all those various circulations, governed by different laws, can be amalgamated into one system; that such a system would be at variance with itself, and would tend to destroy that beautiful system of country banking which now exists in this country; a system which has tended very much to the prosperity of this country, which, by receiving the

surplus capital of different districts, and giving out the capital for the encouragement of trade, calls forth all the natural resources of the country, and puts into motion the industry of the nation, and at the same time supplies a circulation which expands and contracts in each district according as it is required by the trade or agriculture of the district; those expansions or contractions take place at different periods of the year in different districts; the circulation expands when the wants of trade require it, and when no longer wanted it again returns; and I think this beautiful system, in the language of the resolutions passed by the deputies from the Joint Stock Banks, ' has greatly promoted the agriculture, trade, mining and general industry of the nation, and that equal advantages cannot be produced by one bank of issue '.

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950. (*Sir Robert Peel*) Suppose there was one bank which had the charge of the paper circulation of the country, and had the means, therefore, by constant reference to the state of the exchanges, of determining the amount of the paper circulation, do not you think that there would be a greater security against a sudden demand for gold, and an inability to pay that gold, than there is when there are a great many issuers, none of whom, according to your own statement, pay the slightest regard to the state of the exchanges?—No, I think not.

951. What then supplies the check?—The check upon the private bankers is, that their circulation cannot be issued to excess; whereas if you had a bank which should issue notes for so much gold, then every time there was a favourable course of exchange, there would be a large issue of notes, which notes would necessarily reduce the rate of interest, lead to speculation, and turn the exchanges again by causing investments to be made in foreign countries. Now, as issues are at present conducted, bankers are under several checks which would not apply to such a bank; for instance, the check of the interchange with each other of their different notes once or twice a week, and the check of having their notes payable on demand; whereas the notes of such a bank as you suppose would not be diminished except when gold was wanted to be sent abroad. Another check is the practice of giving

interest upon deposits, by which all the surplus circulation is called in and lodged with the bank; now, such a bank as you have supposed would not be under control of those checks, and it would be under the necessity of increasing the circulation whenever the exchange became favourable; and we know by experience, that the most sure way of making the exchanges unfavourable is a previous excessive issue; that previous excessive issue would necessarily arise, on the principle you have supposed, every time the exchange was favourable.

952. You think that there is some cause in operation which applies equally to all issuers of paper, and prevents any undue issue of paper, and dispenses with the necessity of any reference, on the part of each issuer, to the state of the exchanges?—That is the case with all country issuers of paper. With regard to the Bank of England, who have the power of issuing their notes in exchange against bullion, in the purchase of Exchequer bills and Government stock, it is quite clear that notes put into operation in that way, being thrown in a mass upon the previously existing state of trade, will have the effect of raising prices and reducing interest, and turn the exchanges; but if notes are issued merely to pay for transactions that have previously taken place, and are drawn out by the operation of a trade, those notes will have no such effect.

953. Supposing, at present, the Bank of England observed that the exchanges continued unfavourable for a long period, and that there was a progressive diminution in the amount of their bullion, and supposing that they saw that in the course of two years their bullion was reduced from ten millions to four millions, do you think it would be desirable that the Bank of England should take any step whatever to guard against the ultimate consequences of that state of things, by restricting the paper circulation?—I think such a case may occur, but I think in ordinary times the Bank of England might hold foreign securities, by which they would bring back gold to this country, and thus prevent any necessity for a contraction of the circulation; at the same time, I do not at all question the possibility of such a case occurring as may render a contraction necessary; nor do I at all question the

influence of a contraction to have some effect upon the exchanges; but I contend that, as an ordinary principle of action, the bank ought not to expand their circulation, so as to cause the exchanges to be unfavourable, nor calculate upon a contraction of the circulation for the purpose of remedying the exchanges.

954. Then you do think that the expansion of the circulation of the Bank of England may cause unfavourable exchanges?—Yes.

955. Why should not the expansion of the circulation on the part of the country issuers produce the same effect?—Because the country circulation is under checks, whereas the Bank of England circulation is not. The country circulation can be issued only in consequence of transactions which have taken place, and to the extent only required by the wants of the district; whereas it is obvious that the Bank of England has the power of increasing the circulation by the purchase of Exchequer bills or stock, or by purchasing bullion, and throwing a mass of notes on the market when the state of trade does not require them.

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959. Do you think, then, that the legitimate demands of commerce may always be trusted to, as a safe test of the amount of circulation under all circumstances?—I think they may.

960. When there was a restriction upon the payment of notes in gold, during the Bank Restriction Act, do you think that the legitimate demands of commerce constituted a test that might be safely relied upon?—That is a period of which I have no personal knowledge; I know nothing of it but what I have read from books.

961. A personal knowledge would not be requisite?—I think the legitimate demands of commerce, even then, would be a safe guide to go by; at the same time, we must calculate that commerce has extraordinary seasons, as well as other things, and it is quite possible, in the commercial as well as in the natural world, that extraordinary events may occur which may require extraordinary remedies.

962. And you think that adequate provisions would exist against an undue increase of paper, even if paper were not convertible into coin, provided only that the legitimate demands of commerce

were satisfied?—I do not know; if paper were not convertible into gold, that alters the question very much.

963. The question refers to the period when the Bank Restriction existed; you say that you think if during that period the Bank had abstained from any purchase of securities, or any dealings in the money market, and had merely satisfied the legitimate demands of commerce, you do not think there would have been any excess?—I do not think there would; at the same time, not having had the benefit of personal experience, and as I do not value the information I have acquired from books so much as that which I have acquired from personal observation, I should not express my opinion so confidently of that state of things as I should of those with which I am daily conversant.

964. Why, then, should you advise the law to be continued which requires paper to be converted into gold; do you not think the necessity for keeping out a certain stock of bullion in the country, to answer the demand of convertibility, is a loss of capital, and is an expense to this country?—I think the reason of requiring the notes to be converted into gold is to prevent any great fluctuation of prices; for if they were not convertible into gold you might issue notes to excess, and so cause an artificial advance of prices, and that would be an evil.

965. Could the country issuers issue notes to excess?—Yes, if their notes were not payable in gold or Bank of England notes.

966. Then there is something else required besides the legitimate demands of commerce, to which attention should be paid in determining the amount of circulation?—I do not understand the expression, ' determining the amount of circulation ', because I do not consider that it is the province of a banker to determine what amount shall be issued, and issue that, and no more; the country bankers are merely passive in the hands of their customers, and they issue that which is required for the transaction of their respective districts.

967. If they remain merely passive, not indulging in improper speculations, but merely meeting the legitimate demands of commerce, you think there is no danger of any excess?—I think not.

968. Why, then, would you retain the convertibility of paper into gold?—I do not see the connexion between the two.

969. If the legitimate demands of commerce may always be relied upon as a safe criterion by which the country issuers can determine the proper amount of currency, why would you retain the convertibility of paper into gold?—I would retain the convertibility of paper into gold in order that there might be confidence in the circulation, and to prevent an artificial advance of prices by an excess of paper money.

970. And yet you would relieve the country issuer from any reference to the foreign exchanges?—Yes; if any country banker has the power of issuing paper that he is never called upon to pay, of course he may issue that to excess; but I am presuming, of course, that every banker is bound to pay his notes, and is bound to pay them when presented; and, therefore, when he issues them only as called upon by the legitimate demands of commerce, I think he cannot issue them to excess.

971. During a period of long-continued unfavourable exchanges, and of a progressive diminution of the bullion in the coffers of the Bank, you still think it safe for every country issuer to remain passive, and to satisfy every demand that may be made upon him in the course of mercantile transactions, without any reference to the state of the exchanges or to the diminished bullion in the Bank?—Yes, I do not think the country issues have any effect upon the exchanges; I think in such a case as is stated in the question, when the exchanges were unfavourable every banker would put himself in possession of funds; he would not like to lock up his funds; but nevertheless I think by means of circulation alone he would not injure the exchanges.

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973. In short, you think the convertibility of paper into gold is an unseen cause tacitly operating, that will always of itself provide an effectual security against an excess of issues, and dispense with the necessity for any attention whatever on the part of the issuers to the exchanges?—Precisely, so far as regards the country bankers.

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978. You think that the Bank of England has the power of keeping out an excessive issue of paper, and that the country banker has no such power?—Yes, the Bank of England has the power of keeping out an excessive issue of paper till the exchanges turn.

979. Do you think the excess of issue which the Bank of England has the power of making, operates at all upon the issues of country bankers, and encourages an over-issue by them?—The Bank of England circulation operates upon the country banker when it reduces the rate of interest; if the Bank of England issues notes to an excess, it leads to very great speculation and to an increase of the domestic transactions of the country; those domestic transactions will require a larger circulation to carry them on, and in consequence a larger amount of country notes would be drawn out; but it is only in consequence of the stimulus given to the domestic trade of a country from the low rate of interest that the country circulation is increased.

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983. Then you are of opinion that it is a matter of entire indifference to what extent prices are increased in this country, provided the circulation is regulated by the legitimate demands of commerce?—I do not admit that any increase of prices arises from the issue of country paper; I consider that when they are contemporary, the increase of prices is the cause of the issue of paper, and not the effect.

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985. Then whatever the ignorance and folly of parties entering into speculations, and however reckless and incautious the spirit of speculation may be, it is no part of the duty of country issuers to attempt to check that spirit by any restriction of their issues?—It is not within their power to do so.

23rd March 1841.

1015. (*Chairman*) What are the other tests by which you would ascertain whether the issue of bank notes was or was not required?—Besides the rate of interest, I consider the amount of money in circulation, as far as regards the Bank of England, as a test.

1016. Will you explain that answer more fully?—An increase in

the circulation of the Bank of England, I conceive, differs from an increase of the circulation of the country banks, because the increase in the circulation of the country banks is drawn out by the state of trade in their respective districts. The country bankers having no power to purchase stock or Exchequer bills, or bullion, with their notes, an increase of circulation by them is indicative of an increase of trade in their districts; either that there is a greater briskness of trade, and a greater quantity of commodities bought and sold, or else, from some other circumstance, that there is an advance in the price of those commodities; and therefore I do not consider that any positive increase in the amount of the circulation of country banks is any absolute proof of excess of issue; if that were the case, it would appear that the circulation of Ireland, which is very large in December, is a proof of an excess of issue of notes in that country; whereas the fact is, that a larger number of notes at the end of the year are drawn out by the products of the harvest being brought to market. But an increase in the Bank of England circulation, arising from an issue of its notes against bullion, or against the purchase of Government securities, would be an increase not required by trade, and would necessarily reduce the rate of interest, and lead to speculations in trade and investment in foreign securities.

1017. Do you mean, then, that any increase of issue of bank notes against bullion, or by the purchase of securities, is in your opinion an excess of issue?—I must again guard myself; I am very averse to universal propositions, because I believe there are no universal propositions in the science of political economy; that they are all subject to exceptions, and may be modified by circumstances. But taking it as a general rule, and referring to experience, I think that an issue of notes against a lodgment of bullion will usually be found to be an excess of issue.

1018. Unless some general rule is laid down, how is it possible to test the soundness of the opinion, that at any one time an excess of issue of bank notes has taken place?—I think you must judge of that by the effects; if you find that the Bank of England has issued a large amount of notes against bullion, and if you find that the consequence is a great reduction in the market rate

of interest, that trade is stimulated, and ultimately that a large portion of the national capital is invested in foreign securities, which occasions a drain of gold to pay those securities, then I think you are justified in saying that the issue is excessive.

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1026. Do you conceive it to be the duty of the Bank of England to reduce its circulation with a view to check a speculative spirit throughout the country?—Speaking of the Bank of England as a commercial body, I should say they ought not to issue notes at all against Government securities, or against importations of bullion; I mean that they ought not to increase their circulation by such purchases; and, if they were not to do this, the amount of circulation would vary, as it ought to vary, according to the wants of trade.

1027. The Committee understand you to say, that the Bank of England could not issue an excess, if they only issued in answer to the legitimate demands of trade?—I do not think they could, provided they did not issue notes in any other way.

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1043. Do you conceive that the country bankers have any control over their circulations so as either to increase it or to contract it, if it is desirable that they should do so?—Perhaps the best way to answer that question is, to state a practical case; when I was at Waterford as manager of a bank of issue there, I paid out the notes in payment of letters of credit, drawn upon me for London, from Dublin, Liverpool and Bristol; I discounted bills and I paid cheques for deposit accounts: now I cannot see very clearly how I could have contracted my circulation; if I choose to carry on those operations, it is quite clear that, as far as regards the payment of the letters of credit, I had no opportunity whatever; the larger portion of them were brought from Bristol, by drivers of pigs and dealers in cattle, who never draw bills, who never asked for loans, who took their cattle and pigs to Bristol, lodged their money with Mr. Stuckey, and brought a letter of credit to me, and of course I paid it: certainly in this case I had no power of diminishing the amount of my circulation; if a man brought me an order for £200, I must give him the £200; I could not tell him

that it was contrary to sound principles for him to have sold his pigs at so high a price, and therefore I would give him less than the amount of the order; I must give him the amount of the order he brought me. Now in reference to the payment of deposits, if a man drew a cheque upon me, and wanted the money in my notes, I must give it him; if he wanted an order for London or Dublin, I gave it to him; but if he wanted to circulate the notes in the neighbourhood, I had no power to refuse those notes; the only power I had was to refuse to discount bills; but I should not by that means have contracted my circulation, because those bills were drawn upon London, which the merchants took, and some of them did occasionally send their bills over to London, and got discounts, and brought me a letter of credit; so that by refusal to discount any bills, I should only have increased my letters of credit, and therefore I could not control or check the circulation of my branch. I have stated that a banker, as a dealer in capital, may create a demand for additional circulation, and also, if he chooses to contract his advances, he may, no doubt, reduce the demand for that circulation; if a country banker has £100,000 lent to different tradespeople all around him, if he calls that £100,000 in, he will cramp and paralize the trade of the district, and the result will necessarily be, that there will be a less demand for circulation, and therefore he may, by diminishing or increasing the amount lent to his customers, diminish or increase the amount of the circulation; but he has no power of increasing the circulation beyond the amount wanted for the trade of the country.

1044. Is the effect of your last answer, that the country banker has or has not the power of contracting his circulation if he thinks it necessary to do so?—I think I have stated distinctly, that as a mere supplier of currency, he has not the power of contracting or increasing the amount of currency wanted for the district; as a dealer in capital, he may advance capital or withhold capital, and therefore that will have an effect upon the amount of currency; but if the question refers to the amount of his own notes, of course he can call in the amount of his own notes if he chooses to pay out the notes of another bank, or pay sovereigns instead.

1045. Then you conceive that the country bankers generally have

the power of contracting their circulation, if it is thought desirable that they should do so?—The country bankers generally have the same power as I have expressed with regard to one country banker; they have no power of extending their circulation beyond the legitimate wants of the district, because the notes will not circulate beyond the district, because those notes are payable on demand, because the bankers exchange with each other, and thus present for payment all superfluous notes, and because they draw from circulation, by giving interest for it, what is not in a state of activity; they have, however, the power of contracting their own circulation, by substituting another; but they have not the power of keeping from the district some kind of circulation adequate to what the trade of that district may require.

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1058. (*Mr. Grote*) Assuming that it is essential to maintain the convertibility of paper currency generally into gold, is it possible to avoid the evil arising from a contraction, however considerable that evil may be, during a period of adverse foreign exchanges?—Yes, I think it is. If the Bank of England were under my management, I should try to manage it so as to be able to get gold when people came in with the notes. We had several runs in Ireland when I was manager there, but we never thought of reducing our circulation; but we got gold to pay the demands upon us. Now, if I was a manager of the Bank of England, I should try to manage it in the same way as I would manage a bank of my own; I would have my funds so employed, that when a demand for gold was likely to come upon me, I should be able to get the gold; I would not contract the circulation in order to prevent the drain of gold, but I would endeavour to have gold in order to meet the demand.

1059. In what manner is the Bank to obtain gold during a period of adverse foreign exchanges?—The Bank have done that already by foreign credits, and they might do it, as I conceive, by foreign securities; that shows the possibility of their obtaining gold, and their meeting adverse exchanges by other means than a contraction of currency.

1060. Your suggestion would be, that the Bank should hold a sufficient amount of foreign securities to obviate the necessity of

any contraction of the circulation in the event of adverse foreign exchanges. Assuming a state of war between England and a country in which those securities were, what steps would you take?—I should leave the management of that to the Directors of the Bank. I think if the Bank of England knew that they were expected to meet all their payments, and that they were not to look to the Legislature for assistance, that they would be able to manage it; if they had the same law dealt out to them as is dealt out to the other banking establishments, there is no doubt they would manage the matter in such a way as to be able to meet all their demands; it is a matter of practical business; as soon as the necessity of their doing that was known, those means no doubt would soon be found.

1061. Is not the necessity now known, and in spite of that, has it not been proved, that during one or two periods in the last few years the Bank has incurred great danger of an exhaustion of its treasure?—The necessity is not known, because if the Bank cannot pay its notes, it is always presumed that an Order in Council will protect them from the ordinary effects of non-payment.

1062. Is it not the fact, that your suggestion of the Bank holding foreign securities implies a continued state of peace between England and foreign countries in which such securities are held? —No, I do not think that it does any more than it does in the case of foreign securities held by individuals; a large amount of foreign securities is now held by individuals who must be as anxious for the preservation of their property as the Bank can be for the preservation of its property; and when a large amount is held by private individuals, why may not a certain amount be held by the Bank of England?

1063. Could the Bank be certain of making use of those in the event of a war?—I do not see why the Bank would not have the same use of them as an individual would have.

1064. Your answer assumes, that the exchanges are never likely to be adverse during the period of a war, or that the drain of gold is not likely to be considerable; how do you reconcile that with the circumstances attending the last war, or with the war in

1797, when the Bank was reduced to a state of exhaustion of its treasure?—I do not know that my question assumes that; but, however, as a political question, rather than a banking one, I confess that if I were Prime Minister I would immediately upon the commencement of a war issue an Order in Council for the Bank to stop payment.

1065. Then you are of opinion that a suspension of payment is necessarily the consequence of a war?—' Necessarily ' is a strong term; but I should think it the best measure to adopt, and I should decidedly adopt it.

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1088. If you assume the rate of interest to be one among the tests by which excess or sufficiency of the currency is to be determined, it is requisite you should fix upon some particular rate of interest to serve as a standard?—Generally, the rate of interest by which one would be governed would be the ordinary rate of interest throughout the country; but nevertheless, if you have to ascertain the precise rate of interest which, under all possible circumstances, should be the rate of interest, I do not know how you could fix upon that; if you find that the Bank rate of interest is considerably below what it had been previously in the ordinary state of trade, and considerably below what had been charged by individuals, you may safely infer that it is lower than it ought to be.

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1093. If we are to take as one among other tests of excessive issues the rate of interest, is it not necessary that some one particular point should be fixed upon below which the Bank of England ought not to reduce the rate of interest?—Not at all; it is only necessary that you should judge by the average rate of interest throughout the country, and by the rate of interest usually charged when trade is in a tranquil state.

1094. Then so long as the Bank of England does not issue its notes to depress the rate of interest beyond what is demanded in the ordinary transactions between the lender and borrower, you are of opinion that there cannot be an excessive issue?—I think so, provided the Bank do not issue their notes in any other way,

except on discounts. If they issue notes in the purchase of Government securities or bullion, they may easily reduce the market rate below their own rate for discount.

1095. Assuming a certain amount of notes to be issued by the Bank of England, say £1,000,000, what difference would it make whether those notes were issued in the purchase of Exchequer bills or in the discount of private bills?—It does make a difference; but suppose it did not, it assumes this, that the Bank issue a million of notes when they are not required; but the issue of a million of notes in discount of bills, discount being asked for them, shows the notes are required; but apart from that, the cases are different; if they issue notes in the discount of bills, the notes go into channels of commerce but when they issue notes in the purchase of Exchequer bills, the notes are thrown in a mass upon the Stock Exchange, and excite speculation to a much higher degree than if they were issued in the discount of bills.

1096. If the Bank issue a million of notes in the purchase of Government securities, they take so many Government securities out of the market, and liberate so much of the capital of those who previously held those Government securities, does it not come to the same thing, whether the persons applying for discount obtain their discount through those parties whose capital is thus liberated, or whether they make direct application to the Bank of England, and obtain discount?—But you are not warranted in assuming that those notes do go into channels of commerce afterwards; the probability is, that they remain upon the Stock Exchange, and make interest low, and excite speculation.

1097. Are there not in London capitalists who employ their capital either in the discount of bills, or in holding Government securities, according as to whether it may be more advantageous to purchase the one and discount the other; and is there not a perpetual fluctuation of the capital of those persons from the one description of securities to the other?—There are some persons that do that; but there are not a sufficient number of persons to keep the two markets always in a state of equilibrium. We know that there is a great difference in the rate of interest between

the stock market and the discount market; and, in fact, in scarcely any one day is the rate the same in both markets.

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1102. Do you think, then, that the Bank ought not to contract its circulation during a period of adverse foreign exchanges and a drain for bullion?—I have stated that under a proper line of management I think the Bank would have no occasion to contract the circulation under an adverse state of the exchanges; that if they were not to issue notes to excess when the bullion was coming into the country, they would not excite speculation, and thus lower the rate of interest, and not lead to foreign investments, and to the turn of exchanges; but I think, supposing the exchanges should turn, under a proper line of management they ought to be able to get gold from abroad to meet it, without cramping the circulation, and ruining the trade of the country.

1103. How could the Bank obtain gold from abroad during a period when gold was going abroad?—By previously having foreign credits and foreign securities.

1104. Then the opinion that you have now expressed implies that the Bank shall hold those foreign securities or foreign credits?—Yes.

1105. And without such holding of foreign securities and foreign credits, your suggestion would not be applicable that the Bank should manage their currency without its being contracted during a period of foreign exchanges?—If the Bank neglects her duty in the first instance, and gets herself into a mess, she must get out of it as well as she can; I do not mean to say, that under a system of previous bad management she may not be in a position in which she must either ruin herself, or ruin the country, but that would not justify her previous measures.

1106. By bad management on the part of the Bank, you mean omission to hold foreign securities and foreign credits?—Yes, and the issue of notes against the purchase of bullion and the purchase of Government securities; highly imprudent issues on the one hand, and neglect to provide against a run on the other; that is bad management; and if she gets by that bad management into a scrape, I cannot give any advice to her in that case.

1107. Your idea, then, of bad management on the part of the Bank is this, first the issue of notes during a period of favourable foreign exchanges in the purchase of bullion, and next the omission to hold foreign securities and foreign credits; those are the two great points in which you consider the management of the Bank of England to be defective?—Precisely so.

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1148. (*Sir Robert Peel*) You would advise, under certain circumstances, a bank restriction as an immediate measure?—If you had a war, a bank restriction immediately I should recommend.

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1150. In your capacity as a politician, would you not think an artificial advance of prices would be an evil?—Yes, I should.

1151. What, then, is the measure you would take to prevent that evil?—I should endeavour to prevent the notes from being issued in excess, because if they were not issued in excess, they would not cause an artificial advance of prices; in what way I would do that I do not know, nor have I considered the subject, because I do not think it likely that I shall ever be appointed Prime Minister; but I think I should advise the Government and Company of the Bank of England to take such measures as should prevent the currency being issued to excess.

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1153. You are of opinion that a country banker must govern his issues by a reference to the legitimate demands of commerce, and that if the notes of country bankers were not payable in gold or Bank of England notes, the country issuers might issue to excess. What means would you take to prevent such an over-issue?—Compelling them to pay their own notes in Bank of England notes; that would be a sufficient check upon them; but if I were called upon to impose a check upon the Bank of England, that would involve measures which are more of a political nature than a banking nature.

1154. Do not you think that the measure itself would be more of a political kind?—Certainly, it would be as a politician that I should adopt that measure.

1155. You foresee great evils that would arise, but you are not prepared to state the precautions that you would take to meet those evils?—The possible evils would be excess of issue; now, in the case supposed, I should endeavour to prevent the Governor and Company of the Bank making excessive issues.

1156. You say the satisfaction of the legitimate demands of commerce is a sufficient security against over-issue; what is the measure of those legitimate demands?—If the Bank of England chose to lend Government large sums of money, that would lead to over-issues; under such circumstances, I would make such arrangements that the Government should not borrow from them any large sums; I would let them issue their notes according to the demands of commerce; and if they did so, the issues would not be excessive.

1157. You would prevent the Bank of England from entering into money transactions with the Government, which would leave the Bank of England and all other issuers to issue their notes with reference to no other consideration than the legitimate demands of commerce?—I think I should do so; but this is a case of so purely suppositious nature, that I should not like any inference to be drawn from this against my opinions in other respects.

1158. You think that would provide a sufficient security against an over-issue of notes?—Yes.

1159. Why, then, would you retain the convertibility of notes into gold?—Because I would guard against the abuse of that power.

1160. But if the Bank were prevented from making advances to the Government, and followed the legitimate demands of commerce, and issued notes only upon those, you think that there would be a sufficient security against an over-issue of paper?—I think there would; but if it were an inconvertible paper currency, if the paper were not issued to excess, but merely in compliance with the legitimate demands of commerce, I think it would not lead to an advance in prices, and I am justified in that opinion by Mr. Ricardo.

1161. Why would you now retain, during a time of peace, the law which makes paper convertible into gold?—Because this rule of

issuing notes only according to the legitimate demands of commerce is a rule that is not observed by the Bank of England, and therefore I would make their notes payable in gold, in order to compel their observance of the rule.

1162. If a law were passed that the Bank should not purchase securities or make advances to Government, you would consider that you might dispense with the necessity of making paper convertible into gold?—I think if the Bank issued notes in no other way but in compliance with the legitimate demands of commerce, the issue would not become excessive.

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1211. (*Mr. Smith*) When you speak of foreign securities, do you contemplate the Bank of England holding foreign stock?—Yes.

1212. Do you imagine in the case of the Bank wishing to dispose of that stock, that they could sell it in the foreign market when it was known that they were sellers?—I have always presumed that the foreign securities should be convertible, and therefore of course the securities they hold will be saleable when they want to sell them.

1213. Can you state any foreign stock which you think would be saleable under such circumstances?—That is a matter of detail which must be left to the Bank Directors; when I see so large an amount of foreign stock held in England by individuals, I cannot suppose that the Bank of England would run a greater risk than those individuals would run.

1214. Do you think that if the Bank was known to be a large holder of foreign securities, and they wished to sell, there could be any foreign securities found which they would be able to sell under those circumstances?—Yes, the fact of the Bank wishing to be a seller, would not render the security unsaleable, I presume.

1215. Can you state one such foreign stock which could be sold under the circumstances supposed?—No, I give no opinion upon the details; I lay down the principle.

1216. Then when you require the Bank of England to hold foreign securities, you cannot state one foreign stock which they could hold, and which could be easily sold?—I do not say whether

I can or not; if I was the governor of the Bank, I daresay I could find such a stock.

1217. (*Mr. Warburton*) At the time of unfavourable exchanges, can the Bank sell its foreign securities, and send gold from Paris to London without making a very great loss upon the transaction?—Perhaps not, that I would take into the account; if the Bank has occasion for gold, in order to make payments at home, she must sustain the loss. as all other bankers do.

1218. And you do not apprehend, if at a time of unfavourable exchanges, when gold was going from London to Paris, the Bank were to obtain gold from Paris, and therefore to make it more abundant in London, that by that they would accelerate the flow of gold from London to Paris?—No, the question supposes that when gold is going from this country, gold is brought from Paris here; that may or may not be the case; if you sell your securities in Paris, and draw against them, you would check the drain from this country, and would not want to bring any gold here.

1219. If the Bank, in the way described by the last part of your last answer, were to realise their securities in Paris, and were to draw against those proceeds, and were to sell their bills in the English Exchange, would they not thereby call in their notes, and produce precisely the same effect upon the amount of the currency as if they were to sell gold for their notes?—Precisely the same effect as described; but the debt having been then paid, there would be no obstacle to their increasing the currency to its previous amount.

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26th March 1841.

1233. (*Mr. Warburton*) In a pamphlet bearing your name, and intituled 'An Inquiry into the Causes of the Pressure on the Money Market during the Year 1839', on page 58 I find this sentence: 'Barring their exclusive privileges, we see no objection 'to the Bank of England as at present constituted; her recent 'acts of mismanagement have arisen, not from any defect in her 'constitution, but from the adoption of an erroneous theory 'which had been forced upon her attention by the political

'economists.' I presume that, as you have no objection to the Bank of England as at present constituted, you have no objection to the Bank of England being as well a bank of deposit as of issue?—That was precisely the meaning of the sentence, because it had been proposed that the issuing department of the Bank should be kept distinct from what is called her banking department.

1234. Then there are certain points which you recommend the Bank to adopt in the regulation of its affairs; the first is, that in times of peace the Bank should pay gold for notes; the second is, that the Bank should issue notes for discounting commercial bills; the third is, that the Bank, when it has occasion to buy gold, should buy gold by selling securities: and another point which is contained in the fifty-ninth page of your pamphlet is, that the Bank should keep a large stock of gold. Have I misrepresented your opinions?—No; I approve of all those regulations.

1235. I wish to understand what the practical working would be of the plan that you have suggested to the Bank for the administration of its affairs. Supposing there was an adverse state of the exchanges, the stock of bullion in the Bank would be reduced, and there would be a corresponding reduction either in the circulation or in the deposits of the Bank, or in both, would there not?—That would be the case if that was the whole of my plan; but you have omitted to state one of my proposed regulations, which was, that the Bank should hold securities, with which she should rectify the exchanges without lowering the circulation. That you will find in pages 52 and 53 of the same pamphlet.

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1241. I find this passage on page 51 of your pamphlet: 'Thirdly, 'we reply, that in those cases where the exchanges are so un-'favourable as to warrant the interference of the Bank of England, 'the Bank could make such arrangements as will enable her to 'meet the demand for gold without contracting the circulation. 'In the year 1839 the contraction of the currency failed to arrest 'the exportation of gold, and that object was ultimately effected 'by the arrangement to draw bills upon Paris.' Is not the transaction effected in the following manner: the Bank drew bills upon Paris, sold those bills upon the London exchange, and in so

doing, actually did contract its own circulation?—Precisely so; but having contracted the circulation, they could afterwards keep up the same amount of circulation without turning the exchanges.

1242. Then, in fact, this transaction was of a similar nature to that which, in the passage just read, you appear to condemn, which is in a time of adverse exchanges contracting the circulation?—Not at all; because in selling the bills of exchange which contract the circulation having rectified the exchanges, you can then expand the circulation to the same extent that it was before.

1243. That is a subsequent transaction; but so far as the mere transaction of selling the bills upon Paris goes, the effect at the time is to contract the circulation, is it not?—The effect of that particular transaction is to contract the circulation but you contract it in order to expand it by subsequent issue.

1244. Subsequent issue is not a necessary consequence of contracting the circulation by the sale of bills upon Paris?—It depends upon the intention of the party.

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1246. Even supposing that the Bank were to adopt that course of meeting adverse exchanges, by holding foreign securities and drawing bills, the immediate effect of that would be to contract the circulation, would it not?—Yes; the immediate effect would be to contract the circulation; but my plan does not end there; my plan also includes the keeping up the circulation after the exchanges have been rectified.

1247. And I think I collect from your previous evidence, that the mode in which you propose to keep up the circulation would be by discount of mercantile bills, the application for which, at the time of an adverse exchange, materially increases?—It might be by discounting commercial bills; but the inference drawn, that at the time application for them would materially increase, would not be the necessary result, if the circulation was not contracted; it is the contraction of the circulation which causes this additional demand for discount.

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1260. When the securities held by the Bank have been reduced

by the purchase of gold to restore the gold to its former amount, by what plan of operation do you recommend that the securities should be restored to their average amount?—Unless you give me a practical case, I do not see how I can make any reply to the question; I must have a balance sheet of the affairs of the Bank in the supposed case.

1261. Surely, when you have given in the person of experience advice to the Bank parlour, ' If you wish to increase your bullion, ' sell some of your securities for that purpose,' ' Keep a large ' stock, so that a bad harvest or two may not exhaust your store,' you must have contemplated in what manner, when by an adverse exchange the securities had been reduced, according to your plan, that amount of securities should be restored to its former amount? —If I am called upon to explain those words, I am entitled to ask wherein is their mystery or difficulty.

1262. I point out to you that the necessary consequence, according to your plan of an adverse exchange, is to reduce the average amount of securities; then you are asked, in what manner do you propose, by your plan of operation, to restore the securities to the average amount?—How, I would take the liberty to ask, do you prove that the necessary effect is to reduce the average amount of the securities?

1263. You have stated, that in consequence of adverse exchanges, when either bills are to be drawn upon, or gold is to be obtained from the foreign market, the effect of that is to reduce the amount of foreign securities; then you say, I will replace the amount of foreign securities by diminishing the amount of English securities; the question then is, in what manner do you propose, in the working of the plan suggested by yourself, that the original amount of English securities should be restored?—I have no where stated that the Bank is bound to hold the same amount of English securities at all times.

1264. If the operation, according to your plan, is, after such a time of adverse exchanges, to reduce the amount of English securities, in order to replace the foreign securities sold during the adverse foreign exchange, and if, in the interval between one course of adverse exchanges and another, you do not point out how the

original amount is to be restored, when another course of adverse exchanges comes, will not the amount of English securities be still further reduced; and is not the ultimate effect of this to exhaust the amount of English securities altogether?—The question supposes that there is an unfavourable course of exchanges, and then a sale of a certain portion of English securities; and then it supposes that afterwards another unfavourable course of exchanges is to take place; but if the exchanges have turned in the meantime, the deposits of the Bank will increase, and the circulation increase legitimately against the increased trade of the country; that would give you large funds again, which you can again invest in securities.

1265. What is it you would invest in English securities; what would you pay for English securities in that case when the exchanges had become favourable?—If the exchanges became favourable, they would bring you in a quantity of gold; you might purchase English securities for gold; or you might purchase them with notes which had been received from the sale of bills.

1266. Therefore the operation is this: you have diminished the amount of your foreign securities in order to buy gold; you have replaced the amount of the foreign securities by diminution of the English securities, and then you propose to make good the deficiency in the English securities, by paying for those English securities, gold, which gold you obtained by diminishing your foreign securities?—The case first supposed was, that we had to sell our foreign securities in order to find gold; that was one case; then a second case was supposed, but which I stated I did not understand to come immediately after the first of another turn of the foreign exchanges against us. Now, it is almost impossible to have two adverse states of exchange, without a favourable intervening; and as soon as you had a favourable state of exchange, you would, of course, replace the funds which had been exhausted from the unfavourable one, and, of course, you might go over that process as many times as you pleased.

1267. I first of all asked you, after an unfavourable exchange, how you would replace your various securities and gold which, by the operation of unfavourable exchanges, had been reduced;

you did not explain in what manner that original state would be replaced; and then I pointed out to you, that if in the interval between two cases of unfavourable exchange, you had not provided the means of restoring things to their original state, the ultimate effect must be, that your securities would be exhausted; since that you have explained, that at a time of favourable exchanges your circulation would increase, your gold would increase, and that you might, if you pleased, pay gold for English securities, in order to replace that amount which was diminished. Is not the effect of this, that first of all you sell securities in order to obtain gold, and then you pay gold in order to restore the amount of your foreign securities?—I have no distinct view of the particular cases you mention, nor can I have; sometimes two cases are put in juxtaposition, which I find afterwards were intended to occur at an interval, and therefore I cannot speak offhand to the details, unless I have a clear view of the case supposed.

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1272. In answer to question 1064, you stated that, if you were Prime Minister, you would immediately, upon the commencement of a war, issue an Order in Council for the Bank to stop payment; and in 1148 you state, 'If you have a war, a bank restriction immediately I should recommend'; and further, in answer to question 1160, you say, 'If it were an inconvertible paper currency, if the paper were not issued to excess, but merely in compliance with the legitimate demands of commerce, I think it would not lead to advance of prices, and I am justified in that opinion by Mr. Ricardo'; are the Committee to understand from that answer, that you would couple this restriction upon bank payments with such a limitation of amount as would not occasion the market-price of gold to rise above the Mint price?—I wish to give explanations of those answers, which I presume I am quite regular in doing. I stated that, if I were Prime Minister, I would immediately, upon the commencement of a war, issue an Order in Council for the Bank to stop payment. I stated also, that in giving that opinion, I spoke as a politician, and not as a banker. The only war that has occurred in my memory is the war of 20 years with France; and, of course, when speaking of

a war, that is the war to which I referred; that war of 20 years called forth all the energies of the country; it required us to subsidize foreign powers; it required us to maintain an army on the continent; and it also required us to make very heavy loans. Now, under such a war as that, it appeared to me that a suspension of cash payments would be advisable. I recollect some time ago investigating the circumstances attending the suspension of cash payments in 1797; and though I am not prepared to undergo a cross-examination upon every point connected with them, yet I came to the conclusion that, under the circumstances in which the Bank was then placed, a suspension of cash payments was not a matter of choice, but of necessity; that if not immediately necessary at that particular period, it would have become necessary by subsequent events. That was the opinion to which I arrived after a most careful investigation of it, and it is an opinion which has since been confirmed by the writings of Mr. M'Culloch; and when I referred to a war, it was a war similar to that. With respect to any war, of a different character that might now occur, the circumstances would be different; and upon that I can give no opinion. But with reference to the opinion I then gave, I stated that I gave the opinion as a politician, and not as a banker; and perhaps I did wrong in going out of my way, and giving any opinion at all as a politician; for I am ready to acknowledge that I know as little about politics as politicians in general know about banking.

1273. Do you mean, in that answer, to say that you would so regulate the amount of bank issues during a war, that the market price of gold should not materially rise above the Mint price?—I am not prepared to state at present how I should regulate the bank issue during a war, and I think much would depend upon circumstances.

1274. Then you will not inform the Committee whether, in the case of a suspension of cash payments, you would recommend a depreciation of the value of gold or not?—The case of a suspension of cash payments is a suppositious case at present, and I cannot now state what course I might pursue in such a case.

1275. But, having told the Committee that, in time of war, you

would recommend, as a politician, a suspension of cash payments, is not that also a suppositious case?—Precisely so, and for that reason I wish to make no farther allusion to it.

1276. But gentlemen who give opinions are expected to trace out the consequences of those opinions, when they come to be examined before a Committee of the House of Commons?—I do not think they are, unless they give their opinions in a professional character, as bankers; I say that I gave that opinion in a suppositious character, as a politician; I wish to say nothing more about it, and, after I have said that, I do not think, with all respect, I ought to be subject to any farther cross-examination upon the point.

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1312. (*The Chairman*) You said that you had read the evidence that was given before the Committee last year?—I have.

1313. Are you aware that some of the witnesses have suggested that it might be desirable entirely to put down the issues of country banks, and to substitute the notes of one single issuer?—I am aware that that was a suggestion of some of the witnesses last year.

1314. Have you at all considered what would be the effect of such a measure?—I have considered what would be the effect. The reasons for recommending the putting down of banks of issue are not founded, I believe, upon any suspicion of the soundness of those banks, or upon any suspicion that they are not able to pay their notes, but merely in order to enable the currency to be conducted upon certain principles which those gentlemen think the currency ought to be conducted upon.

1315. You consider that it was one of the means of effecting that which was considered by those gentlemen the proper regulation of the currency?—I believe that was the ground upon which only one bank of issue was recommended. The effects which would result from the establishment of such a bank would, I consider, be practically a great inconvenience to the banks themselves, and would also produce very disastrous results in regard to the public in general.

1316. What would be the effect which you think it would produce upon the country bankers?—I think the banks, in the first place, having to pay off their notes (say, eleven or twelve millions), it would reduce their funds from which they now give accommodation to their customers; and, in order to find funds to pay off those notes, they would have to recall loans, and to reduce discounts to such a degree as to cause considerable distress throughout the country, and more especially in agricultural districts.

1317. Are not the effects which you have just stated those which would be produced in the course of carrying this measure into effect?—Yes.

1318. What effects do you conceive would ensue when the measure had once been carried into effect?—After the measure had once been carried into effect, the charges which the country bankers would be compelled to make upon that accommodation which they would still have the power of affording, must be considerably increased.

1319. Why?—Because they would then get no profit upon the notes; at present they can afford to advance money at a low rate of interest when issued in their own notes, because of the profit upon those notes. When I was in Ireland I discounted bills at the same rate which was charged by the Bank of England here, and for the same reason, because I issued my own notes; but if the country bankers had to bring the money from a distance, and lend it to their customers, they must get a greater interest from their customers than they could get by employing it in London or elsewhere, and hence they must make, either in the form of interest or in the form of commission, heavier charges than they made before.

1320. At what per centage do you estimate the cost of issuing notes?—I cannot answer that question from personal knowledge. I think I have heard it stated by bankers at from one-and-a-half to two per cent.—the profit on the circulation being thus reduced, there would be a further effect by the limitation of banking establishments; for some of those establishments are so small, and established in remote places, that they would scarcely pay the expense of conducting them, unless for the profits of the

circulation; and yet the withdrawal of those establishments, though connected with no great profit to the Bank, would be attended with very considerable loss and inconvenience to the inhabitants of those places, because those banks act as receivers of the surplus capital, and hence they are useful to persons who have money to place in those banks; they act as discounters and granters of loans, and hence, they are useful to the productive industry of the country; they are also useful as banks of remittance for the purpose of making payments from those places elsewhere, and hence they are useful to traders; and those useful purposes, as far as many small banks are concerned, would be altogether annihilated if those establishments did not issue their own notes.

1321. Might not a bank easily receive the surplus capital of those who had it to spare, and advance it in loans to those who wish to employ it without being a bank of issue?—Certainly, if they received a sufficient amount to pay their expenses, and to get an adequate profit without an issue, such establishments would be continued; but, there are some establishments which have so little business of that kind, that their profit rests very much upon the circulation; and if their circulation was annihilated, those banks could not be continued.

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1332. (*The Chairman*) Do you conceive that such a change as has been contemplated, namely, the abolition of country bank-notes, would produce any effect upon the foreign exchanges?—The effect upon the foreign exchanges would depend upon the principle upon which the single bank of issue was conducted. If conducted merely by issuing gold for notes and notes for gold, I consider that, when the foreign exchanges were favourable, and brought in a large amount of gold, then there would be a large amount of notes put into circulation. I think that was the case in 1837 and 1838, although the Bank of England did not issue to such an extent as, upon the principle assumed, this one bank of issue would be compelled to do; I consider that then this large amount of notes put into circulation against the importation of gold would reduce the rate of interest, would excite speculation, and lead to

foreign investments; that a reaction would then take place, and the amount of contraction would be very considerable, so as to produce very great distress.

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1344. Do you suppose that the evils which you have anticipated from the substitution of the notes of one bank of issue for country notes generally, would equally be produced by any regulation which enforced upon the country banks some degree of conformity with the state of the foreign exchanges?—I cannot conceive how any measures can be enforced upon the country banks so as to make their circulation correspond with the exchanges, because as that circulation is drawn out by the domestic trade of the country, I cannot conceive how it can be made in any way to fluctuate according to the state of the foreign exchanges.

1345. Supposing a certain maximum of notes was fixed for all existing banks, and that they were not to issue any more except upon a previous deposit of bullion, would not that have the effect of making their circulation generally conform to the state of the foreign exchanges?—I do not see how it could have that effect. If the circulation was by forced means contracted below what the wants of the district required, I consider that some extra kind of circulation would be introduced, bills of exchange, or some other kind, and in that case the object sought to be obtained would not be obtained, because, if by contracting the circulation you try to reduce prices, and another kind of circulation comes in, you do not effect the object of reducing prices.

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1350. (*Mr. Warburton*) Suppose a country banker makes an advance in his own notes of £100 to a farmer, to enable that farmer to pay his rent to his landlord, that he does so pay his rent to his landlord, and that that landlord deposits the rent he receives in that way with the same banker; the effect, then, is to convert that which was in the first instance a circulation of £100 into a deposit of £100 in the same banker's hands, is it not?—Yes.

1351. Suppose this transaction to take place at the time of every rent-day, and that while the farmer is gradually between rent day

and rent day paying off his advance, the landlord is drawing out the same deposit, will not the effect in that case be, that the banker, with the advance of no capital at all, will receive during the six months interest upon the mean between £100 and no pounds, namely, upon about £50?—Yes, less the interest he may allow to the landlord.

1352. Then he can re-issue the deposit made in his own notes toties quoties as often as he can find customers in the country to perform such transactions; if he can find many farmers and many landlords to go through the same course of transactions, he can re-issue those notes toties quoties without the advance himself of any capital at all?—He can advance his money to the farmer, and the farmer pays it to the landlord, and the landlord brings it back; during that time it is in circulation; when the landlord brings it back, it is in deposit, and there is then no advance of notes; then the same farmer is paying off the money exactly the same time (that is the supposition) as the landlord is drawing out the deposits; that, of course, abstractedly is true, but I do not think it is a matter of business that often occurs.

1353. In that case the banker would be able to issue the same deposit again for a similar transaction?—I do not know whether you can call it issuing the same deposit; he may go over the same transaction.

1354. Suppose country banker A. advances £100 in his own notes to farmer B., who pays therewith his rent to landlord C., which landlord C. pays that amount as a deposit into the hands of banker A.; that which is first a circulation of £100 becomes a deposit in the same banker's hands to the amount of £100?—Yes, the banker has a deposit of £100 from the landlord, and has made a loan of £100 to the farmer; the one is debited and the other credited.

1355. If the farmer is at the same time paying off that advance between rent-day and rent-day, and the landlord is drawing out his deposit upon the average at £50 as the arithmetical mean between £100 and no pounds, will not the banker obtain during those six months six months' interest on £50 from the farmer?—You suppose that every day the landlord draws out a pound the

farmer pays in a pound, that would average £50; he would charge the farmer £50, and if he allowed the landlord interest, he would have to deduct the interest at the end of the time.

1356. If there were several landlords and several farmers, and the farmers were to receive advances and the landlords to make deposits, the sum that was paid in might be advanced toties quoties?—If there were several transactions of the same kind, the number of transactions would no doubt be increased.

1357. Would not the same notes when paid in answer for making similar issues?—No; because you have supposed the notes to be drawn out by the landlord every time the payment is made, and therefore to be paid to the farmer; you may, no doubt, multiply your transactions in the same way.

1358. Without any advance of capital on the part of the banker? —Yes.

1359. Suppose there is a banker D., a farmer E., and a landlord F., and that the landlord C., instead of paying the £100 into the hands of banker A., pays the rent into the hands of banker D., and that the landlord F., instead of paying the rent into the hands of banker D., pays it into the hands of banker A., and then that the two bankers interchange their notes; is it not reduced by a circuitous process, and exactly the same transaction as if the landlord C. had paid the amount directly into the hands of banker A.?—I do not understand the question, nor see the consequences.

1360. To take the first transaction, suppose that the banker, instead of making an advance in his own notes, makes the advance in either gold or Bank of England notes will not this be the case, that the banker receives from the farmer the difference between the interest he charges and what he might have received if he had employed the £100 in other investments, and that as regards the landlord's deposit, he can employ that deposit in other investments deducting only a certain reserve?—I should like to have time to consider that.

30th March 1841.

1361. (*Mr. Hume*) Are the Committee to understand from the evidence you have given that joint-stock and country banks of

issue have not the power of increasing their circulation to any great extent?—Yes, that is the opinion which I wish to deliver to the Committee, that the checks upon the country issuers are the frequent exchange of notes with each other, the payment of interest upon deposits, and the liability to pay all their notes upon demand; and the testimony of every banker who has given evidence before a Parliamentary Committee, or who has published upon the subject, goes to the fact that he cannot increase his issues beyond what the wants of the district require, and that, if he does issue to excess, those notes will immediately come back upon him. Now, I consider this to be not a question of opinion to be decided by reasoning, but a question of fact, which is proved by testimony. If you want to prove any fact connected with any trade or business, I consider that you cannot have any stronger evidence than the universal testimony of every person connected with the trade. Now, if we were to examine those bankers who have stopped payment, and ask their opinion upon the subject, they would state that if they had had that power they would never have stopped at all; that their attempting to push out too many notes, not being prepared to pay those notes when they came back, was the cause of the stoppage. I think, therefore, that this evidence, if rebutted at all, can be rebutted only by testimony of the same kind.

1362. Are the Committee, however, to understand, from the answers you have given, that the Bank of England, in your opinion, has the power of increasing the circulation by purchases of gold, stock, Exchequer bills, and other securities?—Precisely so; I think the Bank of England has the power of putting notes into circulation by those means, and that country bankers have not the power of putting notes into circulation by those means. Besides that, the Bank of England is not subject to those checks to which the country banker is liable. There is only one bank of issue in London; consequently, when the notes of that bank are issued, they are not brought back to be exchanged with other banks, as is the case with the banks in the country and all over Scotland. All the Scotch witnesses examined in 1826 tell us that the exchange of notes between bankers is an effectual check upon excessive issues. Now the Bank of England never exchanging with other banks, has not that check upon her issues. If we had

several banks of issue in London exchanging with each other, that would be an effectual check upon an excessive issue of notes by any one bank; and another check which might by possibility exist, would be the allowance of interest for lodgments. Now, as the Bank of England never does allow interest for lodgments, there is no inducement for any person to place money in their hands, except temporarily for the purpose of employment as soon as an opportunity may occur. I think therefore, on these grounds, that although the Bank of England circulation is equally payable on demand, yet payment is never demanded, (because the notes are considered as good as gold) till the foreign exchanges become unfavourable, and gold is wanted for exportation.

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1364. What effects are, in your opinion, produced by the purchases made of stock or Exchequer bills by the Bank of England, and how do the changes take place?—When the Bank purchases stock or Exchequer bills, fresh notes are issued from the Bank; and if we suppose a sufficient quantity of notes for the trading wants of the community to be in circulation, at the time when those additional notes are thrown into circulation, there must be, of course, an attempt to employ those additional notes in some other way; and as there is no legitimate employment for them in the way of trade, they are employed in speculations in stock and other speculative undertakings, that have the effect ultimately of causing money to be invested in foreign securities.

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1367. Then do you conceive the operations which take place between the Government and the Bank of England, in large purchases of Exchequer bills or advances for the payment of dividends, as tending to produce a surplus of currency at one time more than another?—The issue of notes in the purchase of Exchequer bills, whether made for the Bank or the Government, must have the same effect on the money market; and the issue of large sums of money in payment of the dividends must, no doubt for the time, produce the same effect. At the same time I am not prepared to give any opinion as to the mode by which the Government conducts its financial operations; to go into all

the transactions between the Government and the Bank, and to propose any better plan than that which now exists, would require much more time than my engagements permit me to devote to the subject.

1368. Having stated the derangement of the money market by those proceedings of the Bank of England, will you now explain in what way that may be avoided in future, as regards a surplus issue?—If I may be allowed to state generally the remedies I should propose with regard to improving the circulation of London and the country, I should propose that permission be given by the Legislature to establish more banks of issue than one in London; the advantages of this would be, as I have stated, exchanges between the banks, and, probably, the allowance of a rate of interest upon deposits, and therefore the prevention of those speculations which excessive issue is adapted to produce. In stating that opinion, I may be allowed, perhaps, to state it in language which has received more consideration than any extemporaneous language can be supposed to have. 'Whatever effects 'might have been produced from the establishment of several 'banks of issue in London a century ago, we do not think that 'their introduction at the present time would, for a considerable 'period, seriously affect the circulation of the Bank of England. 'So long as the Bank of England shall be the Government Bank, 'and have, besides, a large deposit and discount business, remain 'the centre of a dozen branches, some of which are the largest 'banks in the country, and issue £30,000,000 a year in the pay-'ment of the public dividends, she must continue in possession 'of nearly the whole circulation of London. The great advantage 'of a few more banks of issue in London would be the check they 'would exercise upon the management of the Bank of England. 'She would not issue notes against gold bullion if she had to pay 'those notes in gold coin in her exchanges with the other banks 'on the following day. She would not act illiberally or capri-'ciously towards her customers, if there were other equally strong 'banks to whom they might resort. She would not stand aloof 'in seasons of public calamity, and declare it would be a departure 'from sound principle to afford any relief, if she saw other power-'ful banks ready to perform the duty which she declined. Several

'other advantages would result from numerous banks. If the 'circulation now exclusively possessed by one bank was divided 'between several banks, it is probable that they would altogether 'be in possession of a much greater amount of gold, and they 'would be better able to meet an adverse exchange. Their united 'capital, too, would probably be greater than that of the Bank of 'England; hence there would be greater security to the public, 'independently of the liability of all the partners. This capital 'would not be locked up in loans to Government, but employed 'in granting facilities to the trade and commerce of the country. 'The Government, too, would get the public business transacted 'on better terms, as the rivalry between the banks would induce 'them to outbid each other, while at the same time, such abuses 'as have resulted from the connexion between the Government 'and the Bank would be altogether avoided.' 'It is our opinion 'that the Bank should not expand her circulation merely because 'the exchanges are favourable, and that she should be prepared 'to meet an unfavourable exchange by foreign credits, or by 'holding foreign securities. But we do not think that this or any 'other system ought to be enforced on the Bank of England by 'legislative enactments, nor are we desirous of any organic change 'in that establishment. We would let the Bank directors govern 'their issues by any principle they chose, but we would provide 'an effective check upon any mismanagement, by permitting the 'establishment of other banks of issue in London. To guard 'against the possibility of abuse, it might be enacted, in the first 'instance, that no bank should issue notes in London, unless it 'had a paid-up capital of one million sterling; and if it issued 'notes in the country as well as in London, its paid-up capital 'should be two millions; and the distance of sixty-five miles, 'from which banks of issue of more than six partners are now 'excluded, might be reduced to fifteen miles, measuring all round 'from the Bank of England. A thorough alteration of the law of 'partnership should also take place with regard to all banking 'companies.' Another amendment, which I would propose as connected with the currency of London, would be a regulation of the clearing-house by the Legislature. Although the clearing-house was a voluntary association of bankers at first, yet it has

THE BANK LOOKING TOWARDS MANSION HOUSE, 1848

now existed for 60 years, and has become interwoven with several branches of London trade; it is therefore for all practical purposes a public institution, and, like a market or any other public institution, might become the subject of legislative interference. The exclusion of banks of London from the clearing-house whose capital now amounts to about two millions sterling, and who have about 2,000 partners, is not only a great inconvenience and a great loss to those banks, but is a great inconvenience to the public in general, and such an interference with the freedom of trade, as carried on by individual companies in London, as alone would justify the interference of the Legislature; and, besides, it is quite unreasonable that an association of omnibus proprietors should be indicted and tried for a conspiracy because they have tried to run a rival omnibus off the road, and yet that a body of bankers may conspire for a similar object without any interference of the Legislature at all. In regard to further improvements, I should say, that as the security of all notes depends upon the confidence the public may place in them, and as also that confidence will depend upon the readiness with which creditors obtain redress, it is desirable that there should be such alterations in the law of partnership, with regard to banking companies, as should give the public greater confidence in their notes; they should have immediate redress against the banks when they stop payment, as it is also desirable that the bankers should have greater facilities in sueing those debtors who owe them money.

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1380. (*Mr. Gisborne*) Is not the object of your plan for the regulation of the currency of the Bank of England, that, being the medium for the transfer of commodities within the kingdom, it should have reference only to the wants of internal commerce, and should not be affected by the foreign exchanges?—Precisely so; I wish the circulation of the Bank of England, like that of the country banks, to be regulated by the demands of trade, for I think it unnecessary to keep the standard of value at as fixed and invariable a rate, as far as can be, as the yard measure or the bushel measure.

1381. (*Mr. Warburton*) By what do you test the uniformity of

value of any currency which you say should be equally fixed with the yard or the bushel measure?—I consider that, when the circulation is issued only in compliance with the demands of trade, though it will fluctuate in amount, as the quantity of commodities fluctuates, or as circumstances may cause an advance of prices, yet it will not in that case fluctuate as a measure of value.

1382. But what test do you apply to ascertain whether your currency has fluctuated in value or not?—I judge of it by the circumstances in which it is drawn into circulation.

1383. (*Mr. Grote*) The only currency which approaches the nearest to a uniform value would be a currency not convertible into gold on demand, and issued exclusively in compliance with the demands of borrowers; is that your opinion?—That is a proposition which I should like to hear discussed before I give any opinion upon it.

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1404. (*Chairman*) Have you any further observations to make to the Committee?—When the first question was asked of me, at the commencement of my examination, I stated that I appeared before the Committee as the representative of the joint-stock banks, and that, therefore, in expressing any opinions consistently with the resolutions which they had passed, I wished to be considered as speaking the sentiments of the joint-stock banks, but, should the Committee ask me any question not connected with the circumstances of country issues, that I wished to be considered as speaking my own individual opinions. The points upon which I wish to be considered as speaking the sentiments of the joint-stock banks are as follows: I speak the opinions of the joint-stock banks, in saying that their circulation cannot be made to fluctuate in exact conformity with the circulation of the Bank of England, or with the stock of gold in the Bank of England; that the country issue is drawn out by the demands of trade, and is subject to checks to which the circulation of the Bank of England is not liable; that the country bankers have not the power of issuing their notes to excess; that they cannot contract their circulation or expand it as they please; and also, that the country circulation does not influence the prices of commodities,

and that it cannot be regulated by the principles of the foreign exchange. I speak the opinions of the joint-stock banks when I say, that the abolition of the country circulation would cause very considerable distress; would limit the power of the country banks to grant the same accommodation to their customers; would compel many of their customers to sell their property, thus lessening the value of real property; that country bankers would be compelled to increase their charges to their customers; and, in some cases, that those banking establishments would be altogether abolished, in consequence of not being able to supply sufficient profit for carrying them on; that, in some cases, however the country circulation would be substituted or superseded by a bill circulation, nevertheless considerable distress would exist throughout the country, and that not only country banks themselves, but their customers and the public in general, would be subject to very considerable loss and inconvenience. In other opinions which I have expressed with regard to the regulation of the currency, and the principles upon which the Bank of England ought to be managed, also, as regards the extracts which have been made from my own works, and other matters I need not particularly specify, I wish to be understood as giving my own opinions, without saying whether those opinions do or do not meet the concurrence of the joint-stock bankers. I take the responsibility of these entirely upon myself.

THE BANK CHARTER ACT

CORRESPONDENCE BETWEEN THE GOVERNMENT AND THE BANK OF ENGLAND CONCERNING THE RENEWAL OF THE BANK CHARTER

(Parliamentary Papers, 1844, vol. xxxii.)

To the Governor and Deputy Governor of the Bank.

Downing-street, 26th April 1844.

GENTLEMEN,

As, under the provisions of 3 & 4 Will. 4, c. 98, the 1st of August is the day after which it will be competent to the House of Commons to give a notice to the Bank as to the termination,

within a limited period, of their present exclusive privileges, Her Majesty's Government judge it advisable to endeavour to come to an understanding with the Bank as to their future relations to the Government, rather than to terminate the existing arrangements by recurring to the notice required by the Act of Parliament.

In submitting to you the views of the Government, I would premise that the main object of the Government in any new arrangement is one in the success of which the Bank can be scarcely less interested than the Government; namely, to place the general circulation of the country on a sounder footing, and to prevent as much as possible fluctuations in the currency, of the nature of those which have at different times occasioned hazard to the Bank and embarrassment to the country.

It appears highly desirable that any new arrangement should be founded on the basis of an entire separation of the business of the issue of notes from that of banking. This measure might be effected by the establishment of a public department for the issue of notes, independent altogether of the Bank. But Her Majesty's Government are willing in the first instance to consider whether this can be effected by a division of the Bank into two distinct and separate departments, to conduct exclusively, one the business of issue, the other that of banking.

The first question for the Bank to consider is how far they are willing to undertake this duty. Should they be disposed to administer the functions of issue, it would be desirable that the following principles should be adhered to:

That a certain amount of notes should be issued on Securities, and that all other notes required beyond that amount should be issued only in exchange for bullion.

That the Securities should be to a certain extent of such a nature as to admit of ready convertibility, and should not be increased beyond the amount originally fixed, excepting under circumstances to be stated by the Bank to the Government, and after the consent of certain members of the Government, namely, the First Lord of the Treasury, the Chancellor of the Exchequer, and the Master of the Mint, shall have been signified.

It is proposed from henceforth to prohibit the establishment

of any new Bank of Issue; to restrict the issue of their own notes to those banks at present exercising that privilege, and to limit the issue of such banks to the amount of notes issued by them on an average of a given preceding period; and in the event of their failure or liquidation, to prohibit under any circumstances the resumption of their own circulation. The void created by the withdrawal of any existing private or Joint Stock Bank circulation, either voluntarily or under the circumstances adverted to, should be supplied, if necessary, by the substitution of notes of the Bank of England; and in such a case the Bank, acting in concert with the Government, as provided for in a preceding paragraph, might be authorized to make a proportionate increase in the amount of those Securities which constitute the foundation of the issue of paper. The whole net profit derived from this additional issue would be carried to the account of the Government, and would be in addition to the annual payment which the Bank may agree to make.

It is intended that a weekly publication should take place of the state both of the Issue and Banking Departments of the Bank; and it will be required that each private and Joint Stock Bank issuing its own notes, should make once a week a publication of the amount of their notes in circulation.

Under such an arrangement it is obvious that the Bank will not merely retain its existing privileges of having no bank of more than six partners issuing notes within the 65-mile circle of London, but will be secured against the competition within that district of any new Bank of Issue, even with less than six partners, which might otherwise be established; and although, as the profit of any increased issue will be placed henceforth to the account of the Government, the Bank will not derive direct pecuniary advantage, yet the extension of business and confidence in the Bank (which must result from the extension of its notes, consequent upon this further exclusion) must be to the Bank a source of no inconsiderable benefit.

I must add, that it is not proposed to continue the prohibition which is now in force, as to the drawing, accepting, or paying bills within the 65-mile circle round London.

Should an arrangement on these principles meet the views of

the Bank, the points remaining for consideration will be, the period for which the Bank Charter shall be renewed, and the amount of the payment which ought to be made by the Bank to the public during the period of its continuance.

Her Majesty's Government consider it advisable that the Charter should be granted for 10 years from the 1st of August 1845, and should at the expiration of that period be terminable at any time upon a notice of twelve months; but until such notice be given, should continue in force.

The amount of payment to be made to the public by the Bank will depend upon a joint consideration of the benefits secured by this arrangement to the Banking department of the Bank, and of the proportion of the profits of the Issue or Circulation department which the public are entitled to claim.

As bankers, the Bank will retain the management of the public debt, and the advantage of the Government deposits, and the balance of the several public accounts at the Bank. It must, however, be distinctly understood that the Government retains an entire discretion as to the amount of such deposits to be left in the hands of the Bank, and as to a participation in the profits of such deposits, if they should from any circumstances be materially increased.

With respect to the profits of the Circulation department, supposing the fixed amount of securities to be £14,000,000, the profit would obviously be the difference between the interest received on those securities, and the expenditure required for the manufacture and issue of the notes, the keeping of the accounts connected with them, and the receipt and custody of the bullion which might from time to time come into the hands of that department.

Assuming three per cent. as the rate of interest, the gross profit of the Circulation department would be £420,000.

It was stated by the Bank, in a paper presented to the Committee on the Bank Charter in 1832, that the expense of the circulation was at that time £106,000. It would be desirable that the items constituting this aggregate sum should be separately considered, with a view to ascertaining whether, without diminishing the advantages now afforded to the public, a reduction

might not be affected in the amount. I will, however, assume it for my present purpose as amounting to £100,000.

A sum of £320,000 would then remain as the profit of the circulation department; from which would be to be further deducted the amount of stamp duty paid on the notes of the Bank of England, being about £60,000, and the sum, whatever it may be, which the Bank now allows to those banks of issue which have substituted Bank of England notes for their own paper, and which I assume for the purpose of discussion as about £20,000. The net profits, therefore, in which the public would have a right to share would be a sum of £240,000; or, if it were thought more advisable to remove the stamp duty on the notes of the Bank, £300,000.

In fixing the proportion of this amount which ought to be paid to the public, I do not, on the one hand, put out of view the fair claim of the Bank to compensation as managers, on behalf of the public, of the circulation of the country; but on the other hand the Bank will not fail to bear in mind that by the advance of their capital of £11,000,000 to the public at three per cent., they have hitherto virtually paid to the public a sum little short of one per cent. on that amount; and that now, owing to the present circumstances of the country, that advance is no longer any sacrifice on the part of the Bank, nor any compensation to the public for the benefits derived to the Bank from its connection with the Government.

It may therefore fairly become a question whether that debt of the public to the Bank should be continued at its present amount, or at its present rate of interest.

It appears to me, therefore, that in claiming for the public an annual payment exceeding that now made by the Bank, while I reserve also to the public the net profit which may result from any addition hereafter to be made to the amount of fixed securities, I am not claiming more than the Bank will deem a just compensation for the advantages secured to them.

It appears to me that the real interests of the Bank, taking a comprehensive view of those interests, will be materially promoted by the proposed arrangement. It proposes to leave to them the management of the circulation; it gives a new and decisive

proof of the public confidence reposed in them; while the measure itself is calculated, by increasing the control of the Bank over the paper currency of the country, to secure them from much expense and danger to which they have hitherto been exposed.

I have, &c.

(signed) HENRY GOULBURN.

To the Right Honourable the Chancellor of the Exchequer.

Bank of England, 30th April 1844.

SIR,

We have the honour to acknowledge the receipt of your letter of the 26th instant, which we have submitted to the consideration of the Committee of Treasury and the Court of Directors; and we are desired to assure you that they, in common with ourselves, are duly impressed with the importance of an early settlement of the question affecting the circulation of the country, and are satisfied that the Bank, relinquishing its claim to the notice prescribed by law, will give its most favourable consideration to any proposal from Her Majesty's Ministers, having for its object ' to place the circulation of the country on a sounder footing '.

To the ' entire separation of the business of issue of notes from that of banking ' we are not disposed to offer any objection, and are of opinion that a division of the Bank into two distinct and separate departments for that object can be effected without difficulty; neither do we differ respecting the principles of the intended measures detailed in your letter.

It is now proposed to take from the Bank all the future advantages that may arise from the substitution of its notes for the present issues of Joint Stock and Private Banks. We are prepared to admit the favourable impression which the public opinion will receive from the fact of the Bank having no pecuniary interest in the more general adoption of its notes. It must, however, be recollected, that under the arrangement of 1833, by which it was agreed to allow to the public £120,000 per annum, very considerable advantages were held out to the Bank from the extension of its circulation: these were never realised, in consequence of the declared inability of the Government to carry into effect the measures on which that expectation was founded.

As the Government consider that ' a weekly publication should take place of the state both of the Issue and Banking department of the Bank, and that each Joint Stock and Private Bank issuing its own paper should make, once a week, a publication of the amount of its notes in circulation ', the Court would raise no objection to that arrangement; but we would suggest for the consideration of the Government, if the publication of the banking accounts can be regarded as essential.

By the removal of ' the prohibition now in force as to the drawing, accepting, or paying bills within the 65-mile circle round London ', the Bank may incur some loss in its Banking department; but more serious inconvenience will result if the power to accept should be exercised for the purpose of circulation, and thus interfere with the great object of the projected measures: a question deserving the most serious consideration.

On the subject of the proposed grant of the Bank Charter for 10 years from 1st August 1845, subject at the end of that period to terminate upon a notice of twelve months, but, until such notice be given, to continue in force; we would suggest as a preferable plan, that if notice shall not be given by the Government at the end of 10 years, the Charter should continue until after the expiration of an additional period of 10 years. It seems to us that sufficient power of control would thus be retained by the Government, and that the inconvenience arising from repeated, if not annual discussions on the subject, would be avoided.

The possession of the £11,015,100 advanced by the Bank has ever been considered as affording additional security to the public, and contributing to that entire confidence at all times placed in the solidity of the Bank; and although at an interest of three per cent. the loan may not at this moment impose any pecuniary sacrifice on the Bank, we see no benefit likely to arise to the public from its repayment. We, therefore, think it for the public good that it should be retained; and we would at the same time remark that any reduction in the interest on this loan will necessarily diminish to a corresponding extent the profit in the Issue department of the Bank.

Referring to the estimate of the profit to be derived from the department of Issue, we must remark that we calculate its annual

expense at £113,000 per annum: a large outlay being incurred for the sole accommodation of the public, by Bank-notes not being re-issued in London; by the complete registration of the issue and cancelment of each note; by the preservation of the cancelled notes for 10 years for the purpose of legal reference, so that each note can, in case of need, be traced, and frauds thus be detected; and finally, by the ready supply of notes for bullion or coin; besides various other arrangements adopted solely for the public convenience. A re-issue of notes was commenced, as a measure of economy, in the year 1838; but so much inconvenience was experienced by the bankers and the public that it was abandoned, and the Bank now issues about 20,000 notes, averaging in amount from £600,000 to £700,000, cancelling also the same number and value daily.

The allowance at present made to those Joint Stock and Private Banks under engagement to issue only Bank of England paper, will, at one per cent., amount to £24,000, as appears by the Parliamentary Return; and we submit the following as the correct calculation, viz.:

	£
£14,000,000 at three per cent. . . .	420,000
Deduct the Expences	113,000
	307,000
Present allowance to the Banks and Banking Companies	24,000
Leaves	£283,000

before any payment is made to the Government.

In reference to the position of the Bank, as having the management of the public debt and the benefit of the Government deposits, we wish to state, that the advantage from the former is diminished by the great risk of forgery, and from the latter by the alteration of the Exchequer accounts in 1834, which considerably reduced the amount of the public balances; but in reply to the proposed understanding, that the Government will retain an entire discretion as to the amount of such deposits, and as to a participation in the profits arising from them, if they should, from any circumstances, be materially increased, we beg to say that we should not object to this, provided that it is conceded

by the Government that an allowance will be made to the Bank if the balances are reduced below their present amount.

The benefits to the Bank will also be further reduced by the expenses which will be incurred in the collection of the ordinary revenue; and, in reference to these, it should be stated that, in the year 1843, the clerks of the Bank travelled on the Revenue account 75,090 miles, with the risk attending the custody and transit of £9,047,000; the money being brought immediately to the credit of the Government, saving to the public a considerable amount of interest and risk. Taking these circumstances into consideration, and bearing in mind that, under the proposed arrangement, the Bank will derive no advantage from the extension of its circulation, with all the responsibility, an abatement from the £120,000 hitherto allowed to the public may reasonably be expected; for, if the Bank continues this payment to the Government, together with a liability to the estimated amount of the stamp duty on the notes issued on the £14,000,000 of securities, viz. £49,000, making a total of £169,000, and incurs, besides, the whole responsibility of the extended circulation without profit, the Court is of opinion that it will be called upon to make a larger sacrifice than in reason and justice can be required.

We have, &c.,

(signed) WILLIAM COTTON, Governor.

J. B. HEATH, Deputy Governor.

To the Governor and Deputy Governor of the Bank.

Downing-street, 2 May 1844.

GENTLEMEN,

I have the honour to acknowledge the receipt of your letter of the 30th ultimo.

It is satisfactory to Her Majesty's Government to learn that there is, on the part of the Bank of England, a general concurrence in the principle of the proposals conveyed in my letter of the 27th ultimo, and of their readiness to co-operate in giving effect to them. They observe with pleasure that, notwithstanding the doubts which you suggest as to its utility, you offer no objection to a weekly publication of the state of the Banking as well as of the Issue department.

That measure was recommended to you on behalf of the Government under the conviction that such a publication would be advantageous to the public, and would carry with it the strongest evidence of the stability and credit of the institution over which you preside; and upon the same grounds it still appears to the Government to be of essential importance.

I agree with you that if the renewal of the existing prohibition against accepting bills within the 65-mile circle round London lead to the introduction of a new paper circulation, it might materially interfere with the object of the proposed arrangement.

An attempt might undoubtedly be made now to guard against such an evil consequence by imposing generally, and in the case of all banking establishments, a limit upon the sum for which bills to be accepted might be drawn, or by extending the dates at which they might become payable. But while such a measure might fail in proving an effective check upon future evasion, it is calculated to raise impediments in the way of legitimate banking business. It appears therefore more advisable to trust for a remedy for so serious an evil to the power of the Government (a power which will not fail to be exercised if the abuse should arise), of applying by new legislative enactment an adequate corrective.

Her Majesty's Government have well weighed the reasons which you have urged for preferring a renewal of the Charter upon the terms granted in 1833; namely, for 20 years, with a power of terminating it by a notice given at the expiration of ten.

In making the proposal contained in my letter of the 27th ultimo, the Government were mainly influenced by the consideration (to which you appear also to attach much weight) that it was not advisable unnecessarily to agitate questions affecting the Banking interests and Currency of the country. We confidently hope that the arrangement now to be made will be found at the end of 10 years to have satisfied public expectation; and in that case there would probably be a disposition, encouraged by the knowledge that the subject was at any time open to discussion, to forbear from proposing a change in the existing system. But, on the other hand, if the opportunity of revision afforded at the end of 10 years was not again to occur till the expiration of a

similar period, the necessity of reviewing what was otherwise to be for so long a time irrevocable, could scarcely be denied.

On these grounds Her Majesty's Government consider that it would be more for the public interests that the Charter should be continued as proposed in my former letter.

The reasons offered by you for the retention by the public of the £11,000,000 advanced by the Bank are entitled to considerable weight; and in the event of the acquiescence of the Bank in the terms proposed, Her Majesty's Government are prepared to consent to that debt remaining during the further continuance of the Charter, on its present footing.

With respect to the public balances in the hands of the Bank, I deem it unnecessary to make any observation. The Government must necessarily retain an unfettered discretion as to the amount which it may be proper to keep in the Bank; and in the event of any extraordinary accumulation beyond the usual amount, it would be hereafter, as it has been heretofore, competent to them to make any arrangement with the Bank which might appear to them conducive to the public interests.

With reference to the expenses of the department of Issue, I readily admit the importance of not discontinuing any of those facilities which the Bank has hitherto afforded to the public, although necessarily attended with an increase of charge; nor, after a due consideration of the detail of the expenditure of £113,000, which you have assigned to the Issue department, am I prepared to state that it is excessive; but after making the deductions which you have specified, the profit of the Issue department still amounts to £283,000.

Under these circumstances I cannot feel myself authorised to hold out to the Bank any expectation of an abatement from the sum of £120,000 which they now allow to the public; nor can I admit the payment of £49,000 to be an adequate compensation for the sum which would accrue to the public from leaving the Bank of England notes still subject to stamp duty. The sum latterly received on this account has been, as I previously stated, £60,000.

I should certainly have preferred the continued payment by the Bank of duty on the amount of notes in circulation. By the

arrangement, however, which I have proposed, the public will henceforth be entitled to receive the whole net profit of any issue of notes founded on any addition to the fixed amount of securities. The stamp duty on such notes would necessarily be a deduction from the profit for which the Bank would have to account; and I anticipate considerable difficulty, in the case of such additional issue, of ascertaining the precise proportion of such issue which might be in circulation, and on which alone the duty would attach.

I am therefore prepared on the part of the Government to accept as compensation for the stamp duty a sum of £60,000. If, therefore, the Bank of England are prepared to make a fixed annual payment to the public, amounting in the whole to £180,000, subject to the several conditions which I have in this and in my former letter submitted to you, Her Majesty's Government will be prepared to recommend to Parliament the continuance of the Charter for the period which I have specified.

(signed) HENRY GOULBURN.

To the Right Honourable the Chancellor of the Exchequer, &c.

Bank of England, 3 May 1844.

SIR,

We have to acknowledge your letter of the 2d instant, which we have submitted to the consideration of the Court of Directors; and although they are still of opinion that some abatement from the £120,000 allowed to the public might reasonably have been expected, they have resolved, in order that no obstacle may be presented by them to the measures which are considered desirable by Her Majesty's Ministers to place the Currency on a sounder footing, to recommend to the Court of Proprietors to accede to the proposals of the Government.

We have, &c.

(signed) WILLIAM COTTON, Governor.
J. B. HEATH, Deputy Governor.

An Act to regulate the Issue of Bank Notes, and for giving to the Governor and Company of the Bank of *England* certain Privileges for a limited Period. (19th July 1844.)

'Whereas it is expedient to regulate the Issue of Bills or Notes 'payable on Demand: And whereas an Act was passed in the 'Fourth Year of the Reign of His late Majesty King *William* 'the Fourth, intituled *An Act for giving the Corporation of the 'Governor and Company of the Bank of* England *certain Privileges 'for a limited Period, under certain Conditions*; and it is expedient 'that the Privileges of exclusive Banking therein mentioned 'should be continued to the said Governor and Company of the 'Bank of *England*, with such Alterations as are herein-contained, 'upon certain Conditions;' May it therefore please Your Majesty that it may be enacted; and be it enacted by the Queen's most Excellent Majesty, by and with the Advice and Consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the Authority of the same, That from and after the Thirty-first Day of *August* One thousand eight hundred and forty-four the Issue of Promissory Notes of the Governor and Company of the Bank of *England*, payable on Demand, shall be separated, and thenceforth kept wholly distinct from the general Banking Business of the said Governor and Company; and the Business of and relating to such Issue shall be thenceforth conducted and carried on by the said Governor and Company in a separate Department, to be called 'The Issue Department of the Bank of *England*,' subject to the Rules and Regulations herein-after contained; and it shall be lawful for the Court of Directors of the said Governor and Company, if they shall think fit, to appoint a Committee or Committees of Directors for the Conduct and Management of such Issue Department of the Bank of *England*, and from Time to Time to remove the Members, and define, alter, and regulate the Constitution and Powers of such Committee, as they shall think fit, subject to any Bye-Laws, Rules, or Regulations which may be made for that Purpose: Provided nevertheless, that the said Issue Department shall always be kept separate and distinct from the Banking Department of the said Governor and Company.

II. And be it enacted, That upon the Thirty-first Day of *August* One thousand eight hundred and forty-four there shall be transferred, appropriated, and set apart by the said Governor and Company to the Issue Department of the Bank of *England* Securities to the Value of Fourteen million Pounds, whereof the Debt due by the Public to the said Governor and Company shall be and be deemed a Part; and there shall also at the same Time be transferred, appropriated, and set apart by the said Governor and Company to the said Issue Department so much of the Gold Coin and of Gold and Silver Bullion then held by the Bank of *England* as shall not be required by the Banking Department thereof; and thereupon there shall be delivered out of the said Issue Department into the said Banking Department of the Bank of *England* such an Amount of Bank of *England* Notes as, together with the Bank of *England* Notes then in circulation, shall be equal to the aggregate Amount of the Securities, Coin, and Bullion so transferred to the said Issue Department of the Bank of *England*; and the whole Amount of Bank of *England* Notes then in circulation, including those delivered to the Banking Department of the Bank of *England* as aforesaid, shall be deemed to be issued on the Credit of such Securities, Coin, and Bullion so appropriated and set apart to the said Issue Department; and from thenceforth it shall not be lawful for the said Governor and Company to increase the Amount of Securities for the Time being in the said Issue Department, save as herein-after is mentioned, but it shall be lawful for the said Governor and Company to diminish the Amount of such Securities, and again to increase the same to any Sum not exceeding in the whole the Sum of Fourteen million Pounds, and so from Time to Time as they shall see occasion; and from and after such Transfer and Appropriation to the said Issue Department as aforesaid it shall not be lawful for the said Governor and Company to issue Bank of *England* Notes, either into the Banking Department of the Bank of *England*, or to any Persons or Person whatsoever, save in exchange for other Bank of *England* Notes, or for Gold Coin or for Gold or Silver Bullion received or purchased for the said Issue Department under the Provisions of this Act, or in exchange for Securities acquired and taken in the said Issue Department under the Provisions herein

contained: Provided always, that it shall be lawful for the said Governor and Company in their Banking Department to issue all such Bank of *England* Notes as they shall at any Time receive from the said Issue Department or otherwise, in the same Manner in all respects as such Issue would be lawful to any other Person or Persons.

III. 'And whereas it is necessary to limit the Amount of Silver 'Bullion on which it shall be lawful for the Issue Department 'of the Bank of *England* to issue Bank of *England* Notes;' be it therefore enacted, That it shall not be lawful for the Bank of *England* to retain in the Issue Department of the said Bank at any one Time an Amount of Silver Bullion exceeding One Fourth Part of the Gold Coin and Bullion at such Time held by the Bank of *England* in the Issue Department.

IV. And be it enacted, That from and after the Thirty-first Day of *August* One thousand eight hundred and forty-four all Persons shall be entitled to demand from the Issue Department of the Bank of *England* Bank of *England* Notes in exchange for Gold Bullion, at the Rate of Three Pounds Seventeen Shillings and Nine-pence *per* Ounce of Standard Gold; Provided always, that the said Governor and Company shall in all cases be entitled to require such Gold Bullion to be melted and assayed by Persons approved by the said Governor and Company at the Expence of the Parties tendering such Bullion.

V. Provided always, and be it enacted, That if any Banker who on the Sixth Day of *May* One thousand eight hundred and forty-four was issuing his own Bank Notes shall cease to issue his own Bank Notes, it shall be lawful for Her Majesty in Council at any Time after the Cessation of such Issue, upon the Application of the said Governor and Company, to authorize and empower the said Governor and Company to increase the Amount of Securities in the said Issue Department beyond the total Sum or Value of Fourteen million Pounds, and thereupon to issue additional Bank of *England* Notes to an Amount not exceeding such increased Amount of Securities specified in such Order in Council, and so from Time to Time: Provided always, that such increased Amount of Securities specified in such Order in Council

shall in no case exceed the Proportion of Two Thirds the Amount of Bank Notes which the Banker so ceasing to issue may have been authorized to issue under the Provisions of this Act; and every such Order in Council shall be published in the next succeeding *London Gazette.*

VI. And be it enacted, That an Account of the Amount of Bank of *England* Notes issued by the Issue Department of the Bank of *England*, and of Gold Coin and of Gold and Silver Bullion respectively, and of Securities in the said Issue Department, and also an Account of the Capital Stock, and the Deposits, and of the Money and Securities belonging to the said Governor and Company in the Banking Department of the Bank of *England*, on some Day in every Week to be fixed by the Commissioners of Stamps and Taxes, shall be transmitted by the said Governor and Company weekly to the said Commissioners in the Form prescribed in the Schedule hereto annexed marked (A.), and shall be published by the said Commissioners in the next succeeding *London Gazette* in which the same may be conveniently inserted.

VII. And be it enacted, That from and after the said Thirty-first Day of *August* One thousand eight hundred and forty-four the said Governor and Company of the Bank of *England* shall be released and discharged from the Payment of any Stamp Duty, or composition in respect of Stamp Duty, upon or in respect of their Promissory Notes payable to Bearer on Demand; and all such Notes shall thenceforth be and continue free and wholly exempt from all Liability to any Stamp Duty whatsoever.

VIII. And be it enacted, That from and after the Thirty-first Day of *August* One thousand eight hundred and forty-four the Payment or Deduction of the annual Sum of One hundred and twenty thousand Pounds, made by the said Governor and Company under the Provisions of the said Act passed in the Fourth Year of the Reign of His late Majesty King *William* the Fourth, out of the Sums payable to them for the Charges of Management of the public Unredeemed Debt, shall cease, and in lieu thereof the said Governor and Company, in consideration of the Privileges of exclusive Banking, and the Exemption from Stamp Duties, given to them by this Act, shall during the Continuance

of such Privileges and such Exemption respectively, but no longer, deduct and allow to the Public, from the Sums now payable by Law to the said Governor and Company for the Charges of Management of the Public Unredeemed Debt, the annual Sum of One hundred and eighty thousand Pounds, any thing in any Act or Acts of Parliament, or in any Agreement, to the contrary notwithstanding: Provided always, that such Deduction shall in no respect prejudice or affect the Rights of the said Governor and Company to be paid for the Management of the Public Debt at the Rate and according to the Terms provided in an Act passed in the Forty-eighth Year of the Reign of His late Majesty King *George* the Third intituled *An Act to authorize the advancing for the Public Service, upon certain Conditions, a Proportion of the Balance remaining in the Bank of* England, *for the Payment of Unclaimed Dividends, Annuities, and Lottery Prizes, and for regulating the Allowances to be made for the Management of the National Debt.*

IX. And be it enacted, That in case, under the Provisions hereinbefore contained, the Securities held in the said Issue Department of the Bank of *England* shall at any Time be increased beyond the total Amount of Fourteen million Pounds, then and in each and every Year in which the same shall happen, and so long as such Increase shall continue, the said Governor and Company shall, in addition to the said annual Sum of One hundred and eighty thousand Pounds, make a further Payment or Allowance to the Public, equal in Amount to the net Profit derived in the said Issue Department during the current Year from such additional Securities, after deducting the Amount of the Expences occasioned by the additional Issue during the same Period, which Expences shall include the Amount of any and every Composition or Payment to be made by the said Governor and Company to any Banker in consideration of the Discontinuance at any Time hereafter of the Issue of Bank Notes by such Banker; and such further Payment or Allowance to the Public by the said Governor and Company shall, in every Year while the Public shall be entitled to receive the same, be deducted from the Amount by Law payable to the said Governor and Company for the Charges of Management of the Unredeemed Public Debt, in the same

Manner as the said annual Sum of One hundred and eighty thousand Pounds is hereby directed to be deducted therefrom.

X. And be it enacted, That from and after the passing of this Act no Person other than a Banker who on the Sixth Day of *May* One thousand eight hundred and forty-four was lawfully issuing his own Bank Notes shall make or issue Bank Notes in any Part of the United Kingdom.

XI. And be it enacted, That from and after the passing of this Act it shall not be lawful for any Banker to draw, accept, make, or issue, in *England* or *Wales*, any Bill of Exchange or Promissory Note or Engagement for the Payment of Money payable to Bearer on Demand, or to borrow, owe, or take up, in *England* or *Wales*, any Sums or Sum of Money on the Bills or Notes of such Banker payable to Bearer on Demand, save and except that it shall be lawful for any Banker who was on the Sixth Day of *May* One thousand eight hundred and forty-four carrying on the Business of a Banker in *England* or *Wales*, and was then lawfully issuing, in *England* or *Wales*, his own Bank Notes, under the Authority of a Licence to that Effect, to continue to issue such Notes to the Extent and under the Conditions herein-after mentioned, but not further or otherwise; and the Right of any Company or Partnership to continue to issue such Notes shall not be in any Manner prejudiced or affected by any Change which may hereafter take place in the personal Composition of such Company or Partnership, either by the Transfer of any Shares or Share therein, or by the Admission of any new Partner or Member thereto, or by the Retirement of any present Partner or Member therefrom; Provided always, That it shall not be lawful for any Company or Partnership now consisting of only Six or less than Six Persons to issue Bank Notes at any Time after the Number of Partners therein shall exceed Six in the whole.

XII. And be it enacted, That if any Banker in any Part of the United Kingdom who after the passing of this Act shall be entitled to issue Bank Notes shall become bankrupt, or shall cease to carry on the Business of a Banker, or shall discontinue the Issue of Bank Notes, either by Agreement with the Governor and Company of the Bank of *England* or otherwise, it shall not be

lawful for such Banker at any Time thereafter to issue any such Notes.

XIII. And be it enacted, That every Banker claiming under this Act to continue to issue Bank Notes in *England* or *Wales* shall, within One Month next after the passing of this Act, give Notice in Writing to the Commissioners of Stamps and Taxes at their Head Office in *London* of such Claim, and of the Place and Name and Firm at and under which such Banker has issued such Notes during the Twelve Weeks next preceding the Twenty-seventh Day of *April* last; and thereupon the said Commissioners shall ascertain if such Banker was on the Sixth Day of *May* One thousand eight hundred and forty-four carrying on the Business of a Banker, and lawfully issuing his own Bank Notes in *England* or *Wales*, and if it shall so appear then the said Commissioners shall proceed to ascertain the average Amount of the Bank Notes of such Banker which were in circulation during the said Period of Twelve Weeks preceding the Twenty-seventh Day of *April* last, according to the Returns made by such Banker in pursuance of the Act passed in the Fourth and Fifth Years of the Reign of Her present Majesty, intituled *An Act to make further Provision relative to the Returns to be made by Banks of the Amount of their Notes in circulation*; and the said Commissioners or any Two of them shall certify under their Hands to such Banker the said average Amount, when so ascertained as aforesaid; and it shall be lawful for every such Banker to continue to issue his own Bank Notes after the passing of this Act: Provided nevertheless, that such Banker shall not at any Time after the Tenth Day of *October* One thousand eight hundred and forty-four have in circulation upon the Average of a Period of Four Weeks, to be ascertained as herein-after mentioned, a greater Amount of Notes than the Amount so specified.

XIV. Provided always, and be it enacted, That if it shall be made to appear to the Commissioners of Stamps and Taxes that any Two or more Banks have, by written Contract or Agreement (which Contract or Agreement shall be produced to the said Commissioners), become united within the Twelve Weeks next preceding such Twenty-seventh Day of *April* as aforesaid, it shall

be lawful for the said Commissioners to ascertain the average Amount of the Notes of each such Bank in the Manner herein-before directed, and to certify the average Amount of the Notes of the Two or more Banks so united as the Amount which the united Banks shall thereafter be authorized to issue, subject to the Regulations of this Act.

XV. And be it enacted, That the Commissioners of Stamps and Taxes shall, at the Time of certifying to any Banker such Particulars as they are herein-before required to certify, also publish a Duplicate of their Certificate thereof in the next succeeding *London Gazette* in which the same may be conveniently inserted; and the Gazette in which such Publication shall be made shall be conclusive Evidence in all Courts whatsoever of the Amount of Bank Notes which the Banker named in such Certificate or Duplicate is by Law authorized to issue and to have in circulation as aforesaid.

XVI. And be it enacted, That in case it shall be made to appear to the Commissioners of Stamps and Taxes, at any Time hereafter, that any Two or more Banks, each such Bank consisting of not more than Six Persons, have, by written Contract or Agreement (which Contract or Agreement shall be produced to the said Commissioners), become united subsequently to the passing of this Act, it shall be lawful to the said Commissioners, upon the Application of such united Banks, to certify, in manner herein-before mentioned, the Aggregate of the Amounts of Bank Notes which such separate Banks were previously authorized to issue, and so from Time to Time; and every such Certificate shall be published in manner herein-before directed; and from and after such Publication the Amount therein stated shall be and be deemed to be the Limit of the Amount of Bank Notes which such united Bank may have in circulation; provided always, that it shall not be lawful for any such united Bank to issue Bank Notes at any Time after the Number of Partners therein shall exceed Six in the whole.

XVII. And be it enacted, That if the monthly average Circulation of Bank Notes of any Banker, taken in the Manner hereinafter directed, shall at any Time exceed the Amount which such Banker is authorized to issue and have in circulation under the Provisions of this Act, such Banker shall in every such Case

forfeit a Sum equal to the Amount by which the average monthly Circulation, taken as aforesaid, shall have exceeded the Amount which such Banker was authorized to issue and to have in circulation as aforesaid.

XVIII. And be it enacted, That every Banker in *England* and *Wales* who, after the Tenth Day of *October* One thousand eight hundred and forty-four, shall issue Bank Notes shall on some One Day in every Week after the Nineteenth Day of *October* One thousand eight hundred and forty-four (such Day to be fixed by the Commissioners of Stamps and Taxes) transmit to the said Commissioners an Account of the Amount of the Bank Notes of such Banker in circulation on every Day during the Week ending on the next preceding *Saturday*, and also an Account of the average Amount of the Bank Notes of such Banker in circulation during the same Week; and on completing the first Period of Four Weeks, and so on completing each successive Period of Four Weeks, every such Banker shall annex to such Account the average Amount of Bank Notes of such Banker in circulation during the said Four Weeks, and also the Amount of Bank Notes which such Banker is authorized to issue under the Provisions of this Act; and every such Account shall be verified by the Signature of such Banker or his Chief Cashier, or, in the Case of a Company or Partnership, by the Signature of a Managing Director or Partner or Chief Cashier of such Company or Partnership, and shall be made in the Form to this Act annexed marked (B.); and so much of the said Return as states the weekly average Amount of the Notes of such Bank shall be published by the said Commissioners in the next succeeding *London Gazette* in which the same may be conveniently inserted; and if any such Banker shall neglect or refuse to render any such Account in the Form and at the Time required by this Act, or shall at any Time render a false Account, such Banker shall forfeit the Sum of One hundred Pounds for every such Offence.

XIX. And be it enacted, That for the Purpose of ascertaining the monthly average Amount of Bank Notes of each Banker in circulation the aggregate of the Amount of Bank Notes of each such Banker in circulation on every Day of Business during the first complete Period of Four Weeks next after the Tenth Day

of *October* One thousand eight hundred and forty-four, such Period ending on a *Saturday*, shall be divided by the Number of Days of Business of such Four Weeks, and the Average so ascertained shall be deemed to be the Average of Bank Notes of each such Banker in circulation during such Period of Four Weeks, and so in each successive Period of Four Weeks, and such Average is not to exceed the Amount certified by the Commissioners of Stamps and Taxes as aforesaid.

XX. 'And whereas, in order to insure the rendering of true and 'faithful Accounts of the Amount of Bank Notes in circulation, 'as directed by this Act, it is necessary that the Commissioners 'of Stamps and Taxes should be empowered to cause the Books 'of Bankers issuing such Notes to be inspected, as herein-after 'mentioned;' be it therefore enacted, That all and every the Book and Books of any Banker who shall issue Bank Notes under the Provisions of this Act, in which shall be kept, contained, or entered any Account, Minute, or Memorandum of or relating to the Bank Notes issued or to be issued by such Banker, or of or relating to the Amount of such Notes in circulation from Time to Time, or any Account, Minute, or Memorandum the Sight or Inspection whereof may tend to secure the Rendering of true Accounts of the average Amount of such Notes in circulation, as directed by this Act, or to test the Truth of any such Account, shall be open for the Inspection and Examination, at all seasonable Times, of any Officer of Stamp Duties authorized in that Behalf by Writing, signed by the Commissioners of Stamps and Taxes or any Two of them; and every such Officer shall be at liberty to take Copies of or Extracts from any such Book or Account as aforesaid; and if any Banker or other Person keeping any such Book, or having the Custody or Possession thereof, or Power to produce the same, shall, upon Demand made by any such Officer, showing (if required) his Authority in that Behalf, refuse to produce any such Book to such Officer for his Inspection and Examination, or to permit him to inspect and examine the same, or to take Copies thereof or Extracts therefrom, or of or from any such Account, Minute, or Memorandum as aforesaid kept, contained, or entered therein, every such Banker or other Person so offending shall for every such

Offence forfeit the Sum of One hundred Pounds; Provided always, that the said Commissioners shall not exercise the Powers aforesaid without the Consent of the Commissioners of Her Majesty's Treasury.

XXI. And be it enacted, That every Banker in *England* and *Wales* who is now carrying on or shall hereafter carry on Business as such shall on the First Day of *January* in each Year, or within Fifteen Days thereafter, make a Return to the Commissioners of Stamps and Taxes at their Head Office in *London* of his Name, Residence, and Occupation, or, in the Case of a Company or Partnership, of the Name, Residence, and Occupation of every Person composing and being a Member of such Company or Partnership, and also the Name of the Firm under which such Banker, Company, or Partnership carry on the Business of Banking, and of every Place where such Business is carried on; and if any such Banker, Company, or Partnership shall omit or refuse to make such Return within Fifteen Days after the First Day of *January*, or shall wilfully make other than a true Return of the Persons as herein required, every Banker, Company, or Partnership so offending shall forfeit and pay the Sum of Fifty Pounds; and the said Commissioners of Stamps and Taxes shall on or before the First Day of *March* in every Year publish in some Newspaper circulating within each Town or County respectively a Copy of the Return so made by every Banker, Company, or Partnership carrying on the Business of Bankers within such Town or County respectively, as the Case may be.

XXII. And be it enacted, That every Banker who shall be liable by Law to take out a Licence from the Commissioners of Stamps and Taxes to authorize the issuing of Notes or Bills shall take out a separate and distinct Licence for every Town or Place at which he shall, by himself or his Agent, issue any Notes or Bills requiring such Licence to authorize the issuing thereof, any thing in any former Act contained to the contrary thereof notwithstanding: Provided always, That no Banker who on or before the Sixth Day of *May* One thousand eight hundred and forty-four had taken out Four such Licences, which on the said last-mentioned Day were respectively in force, for the issuing of any such Notes or Bills at more than Four separate Towns or Places,

shall at any Time hereafter be required to take out or have in force at one and the same Time more than Four such Licences to authorize the issuing of such Notes or Bills at all or any of the same Towns or Places specified in such Licences in force on the said Sixth Day of *May* One thousand eight hundred and forty-four, and at which Towns or Places respectively such Bankers had on or before the said last-mentioned Day issued such Notes or Bills in pursuance of such Licences or any of them respectively.

XXIII. 'And whereas the several Bankers named in the Schedule 'hereto annexed marked (C.) have ceased to issue their own Bank 'Notes under certain Agreements with the Governor and Com-'pany of the Bank of *England*; and it is expedient that such 'Agreements should cease and determine on the Thirty-first Day 'of *December* next, and that such Bankers should receive by way 'of Compensation such Composition as hereafter mentioned; and 'a List of such Bankers, and a Statement of the maximum Sums 'in respect of which each such Banker is to receive Compensa-'tion, hath been delivered to the Commissioners of Stamps and 'Taxes, signed by the Chief Cashier of the Bank of *England*;' be it therefore enacted, That the several Agreements subsisting between the said Governor and Company and the several Bankers mentioned in the Schedule hereto relating to the Issue of Bank of *England* Notes shall cease and determine on the Thirty-first Day of *December* next; and from and after that Day the said Governor and Company shall pay and allow to the several Bankers named in the Schedule hereto marked (C.), so long as such Bankers shall be willing to receive the same, a Composition at and after the Rate of One Pound *per Centum per Annum* on the average Amount of the Bank of *England* Notes issued by such Bankers respectively and actually remaining in circulation, to be ascertained as follows; (that is to say,) on some Day in the Month of *April* One thousand eight hundred and forty-five, to be determined by the said Governor and Company, an Account shall be taken of the Bank of *England* Notes delivered to such Bankers respectively by the said Governor and Company within Three Months next preceding, and of such of the said Bank of *England* Notes as shall have been returned to the Bank of *England*, and the Balance shall be deemed to be the Amount of Bank of *England*

Notes issued by such Bankers respectively, and kept in circulation; and a similar Account shall be taken at Intervals of Three Calendar Months; and the Average of the Balances ascertained on taking Four such Accounts shall be deemed to be the average Amount of Bank of *England* Notes issued by such Bankers respectively and kept in circulation during the Year One thousand eight hundred and forty-five, and on which Amount such Bankers are respectively to receive the aforesaid Composition of One *per Centum* for the Year One thousand eight hundred and forty-five; and similar Accounts shall be taken in each succeeding Year; but in each Year such Accounts shall be taken in different Months from those in which the Accounts of the last preceding Year were taken, and on different Days of the Month, such Months and Days to be determined by the said Governor and Company; and the Amount of the Composition payable as aforesaid shall be paid by the said Governor and Company out of their own Funds; and in case any Difference shall arise between any of such Bankers and the Governor and Company of the Bank of *England* in respect of the Composition payable as aforesaid, the same shall be determined by the Chancellor of the Exchequer for the Time being, or by some Person to be named by him, and the Decision of the Chancellor of the Exchequer, or his Nominee, shall be final and conclusive: Provided always, that it shall be lawful for any Banker named in the Schedule hereto annexed marked (C.) to discontinue the Receipt of such Composition as aforesaid, but no such Banker shall by such Discontinuance as aforesaid thereby acquire any Right or Title to issue Bank Notes.

XXIV. And be it enacted, That it shall be lawful for the said Governor and Company to agree with every Banker who, under the Provisions of this Act, shall be entitled to issue Bank Notes, to allow to such Banker a Composition at the Rate of One *per Centum per Annum* on the Amount of Bank of *England* Notes which shall be issued and kept in circulation by such Banker, as a Consideration for his Relinquishment of the Privilege of issuing his own Bank Notes; and all the Provisions herein contained for ascertaining and determining the Amount of Composition payable to the several Bankers named in the Schedule hereto marked (C.) shall apply to all such other Bankers with whom the said Governor

and Company are hereby authorized to agree as aforesaid; provided that the Amount of Composition payable to such Bankers as last aforesaid shall in every Case in which an Increase of Securities in the Issue Department shall have been authorized by any Order in Council be deducted out of the Amount payable by the said Governor and Company to the Public under the Provisions herein contained: Provided always, that the total Sum payable to any Banker, under the Provisions herein contained, by way of Composition as aforesaid, in any One Year, shall not exceed, in case of the Bankers mentioned in the Schedule hereto marked (C.), One *per Centum* on the several Sums set against the Names of such Bankers respectively in the List and Statement delivered to the Commissioners of Stamps as aforesaid, and in the Case of other Bankers shall not exceed One *per Centum* on the Amount of Bank Notes which such Bankers respectively would otherwise be entitled to issue under the Provisions herein contained.

XXV. And be it enacted, That all the Compositions payable to the several Bankers mentioned in the Schedule hereto marked (C.), and such other Bankers as shall agree with the said Governor and Company to discontinue the Issue of their own Bank Notes as aforesaid, shall, if not previously determined by the Act of such Banker as herein-before provided, cease and determine on the First Day of *August* One thousand eight hundred and fifty-six, or on any earlier Day on which Parliament may prohibit the Issue of Bank Notes.

XXVI. And be it enacted, That from and after the passing of this Act it shall be lawful for any Society or Company or any Persons in Partnership, though exceeding Six in Number, carrying on the Business of Banking in *London*, or within Sixty-five Miles thereof, to draw, accept, or endorse Bills of Exchange, not being payable to Bearer on Demand, any thing in the herein-before recited Act passed in the Fourth Year of His said Majesty King *William* the Fourth, or in any other Act, to the contrary notwithstanding.

XXVII. And be it enacted, That the said Governor and Company of the Bank of *England* shall have and enjoy such exclusive

Privilege of Banking as is given by this Act, upon such Terms and Conditions, and subject to the Termination thereof at such Time and in such Manner as is by this Act provided and specified; and all and every the Powers and Authorities, Franchise, Privileges, and Advantages, given or recognised by the said recited Act passed in the Fourth Year of the Reign of His Majesty King *William* the Fourth, as belonging to or enjoyed by the said Governor and Company of the Bank of *England*, or by any subsequent Act or Acts of Parliament, shall be and the same are hereby required to be in full Force, and continued by this Act, except so far as the same are altered by this Act; subject nevertheless to Redemption upon the Terms and Conditions following; (that is to say,) at any Time upon Twelve Months Notice to be given after the First Day of *August* One thousand eight hundred and fifty-five, and upon Repayment by Parliament to the said Governor and Company or their Successors of the Sum of Eleven millions fifteen thousand and one hundred Pounds, being the Debt now due from the Public to the said Governor and Company, without any Deduction, Discount, or Abatement whatsoever, and upon Payment to the said Governor and Company and their Successors of all Arrears of the Sum of One hundred thousand Pounds *per Annum*, in the last-mentioned Act mentioned, together with the Interest or Annuities payable upon the said Debt or in respect thereof, and also upon Repayment of all the Principal and Interest which shall be owing unto the said Governor and Company and their Successors upon all such Tallies, Exchequer Orders, Exchequer Bills, or Parliamentary Funds which the said Governor and Company or their Successors shall have remaining in their Hands or be entitled to at the Time of such Notice to be given as last aforesaid, then and in such Case, and not till then, the said exclusive Privileges of Banking granted by this Act shall cease and determine at the Expiration of such Notice at Twelve Months; and any Vote or Resolution of the House of Commons, signified under the Hand of the Speaker of the said House in Writing, and delivered at the public Office of the said Governor and Company, shall be deemed and adjudged to be a sufficient Notice.

XXVIII. And be it enacted, That the Term ' Bank Notes ' used

in this Act shall extend and apply to all Bills and Notes for the payment of money to the Bearer on Demand other than Bills or Notes of the Governor and Company of the Bank of *England*; and that the Term 'Bank of *England* Notes' shall extend and apply to the Promissory Notes of the Governor and Company of the Bank of *England* payable to Bearer on Demand; and that the Term 'Banker' shall extend and apply to all Corporations, Societies, Partnerships, and Persons, and every individual Person carrying on the Business of Banking, whether by the Issue of Bank Notes or otherwise, except only the Governor and Company of the Bank of *England*; and that the word 'Person' used in this Act shall include Corporations; and that the Singular Number in this Act shall include the Plural Number, and the Plural Number the Singular, except where there is any thing in the Context repugnant to such Construction; and that the Masculine Gender in this Act shall include the Feminine, except where there is any thing in the Context repugnant to such Construction.

XXIX. And be it enacted, That this Act may be amended or repealed by any Act to be passed in the present Session of Parliament.

SCHEDULES to which the Act refers.

SCHEDULE (A.)
BANK OF ENGLAND.

An Account pursuant to the Act 7 & 8 Vict. Cap. 32 for the Week ending on the Day of

Issue Department

	£		£
Notes issued . . .		Government Debt. . .	
		Other Securities . .	
		Gold Coin and Bullion .	
		Silver Bullion . . .	
	£		£

Dated the Day of

Cashier.

Banking Department

	£		£
Proprietors Capital .		Government Securities (including Dead Weight Annuity) . .	
Rest		Other Securities . .	
Public Deposits (to include Exchequer, Saving Banks, Commissioners of National Debt, and Dividend Accounts) .		Notes	
Other Deposits . .		Gold and Silver Coin .	
Seven Day and other Bills			
	£		£

Dated the Day of _____ Cashier.

SCHEDULE (B.)

Name and Title as set forth in the Licence. _____ Bank.

Name of the Firm. _____ Firm.

Insert Head Office, or principal Place of Issue. _____ Place.

An Account pursuant to the Act 7 & 8 Vict. Cap. 32 of the Notes of the said Bank in circulation during the Week ending Saturday the Day of .

Monday . . .	
Tuesday . . .	
Wednesday . . .	
Thursday . . .	
Friday	
Saturday . . .	
	6)
Average of the Week . .	

(*To be annexed to this Account at the End of each Period of Four Weeks.*)

Amount of Notes authorized by Law .	£
Average Amount in circulation during the Four Weeks ending as above . .	£

I, being (the Banker, Chief Cashier, Managing Director, *or* Partner of the Bank, *as the Case may be*), do hereby certify, That the above is a true Account of the Notes of the said Bank in circulation during the Week above written.

(Signed)

Dated the Day of .

SCHEDULE (C.)

Banks which have ceased to issue their own Bank Notes, under certain Agreements with the Governor and Company of the Bank of England.

Bank of Liverpool.
J. Barned & Co.
Biddulph, Brothers, & Co.
Birmingham Banking Company.
Birmingham Town and District Bank.
Birmingham and Midland Banking Company.
Burgess and Son.
Coopers and Purton.
Cunliffes, Brookes, and Co.
Deane, Littlehales, and Deane.
Dendy, Comper, and Co.
Devon and Cornwall Banking Company.
Grants and Gillman.
Hampshire Banking Company.
James W. R. Hall.
J. M. Head and Co.
Henty, Upperton, and Olliver.
Thomas Kinnersly and Sons.
R. J. Lambton and Co.
Liverpool Commercial Banking Company.
Liverpool Union Bank.
Liverpool Borough Bank.
Manchester and Liverpool District Banking Company.
Manchester and Salford Banking Company.
Monmouth and Glamorgan Banking Company.
Moss and Company.
Mangles, Brothers.
Newcastle Commercial Banking Company.
Newcastle-on-Tyne Joint Stock Banking Company.
North of England Joint Stock Banking Company.
Northumberland and Durham District Bank.
Portsmouth and South Hants Banking Company.
T. and R. Raikes and Co.

Robinson and Brodhurst.
Sheffield Union Bank.
John Stoveld.
Sunderland Joint Stock Banking Company.
Tugwell and Co.
Union Bank of Manchester.
Vivian, Kitson, and Co.
Watts, Whiteway, and Co.
J. and J. C. Wright and Co.
Webb, Holbrook, and Spencer.

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